

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

ROBERT L. BURNS
CHAIRMAN 2008
PAULA ABOUD
AMANDA AGUIRRE
JORGE LUIS GARCIA
JACK W. HARPER
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HOUSE OF
REPRESENTATIVES

RUSSELL K. PEARCE
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JOINT LEGISLATIVE BUDGET COMMITTEE

Thursday, October 2, 2008

9:30 A.M.

Senate Appropriations, Room 109

MEETING NOTICE

- Call to Order
 - [Approval of Minutes of August 12, 2008.](#)
 - DIRECTOR'S REPORT (if necessary).
 - [FY 2009 BUDGET UPDATE BY JLBC STAFF](#)
[--Governor's Office Presentation and/or Comments](#)
 - EXECUTIVE SESSION - Arizona Department of Administration - Risk Management Annual Report.
1. DEPARTMENT OF EDUCATION
 - A. [Review Proposed Transfer of Funds from Basic State Aid to Structured English Immersion Fund under A.R.S. § 15-901.03.](#)
 - B. [Review of Joint Technological Education District Intergovernmental Agreements.](#)
 - C. [Report of Plan to Fund AIMS Study Guides with Achievement Testing Monies.](#)
 2. [DEPARTMENT OF ECONOMIC SECURITY - Review of Requested Transfer of Appropriations and Report on Additional Domestic Violence Shelter Fund and Child Support Enforcement Administration Fund Spending.](#)
 3. [ARIZONA DEPARTMENT OF ADMINISTRATION - Review of Risk Management Deductible.](#)
 4. [DEPARTMENT OF HEALTH SERVICES - Review of Children's Rehabilitative Services Capitation Rate Changes.](#)
 5. [AHCCCS - Review of Proposed Acute Care and ALTCS Capitation Rate Changes -- Agency Request \(Information Only\).](#)

6. ARIZONA BOARD OF REGENTS - Review of FY 2009 Tuition Revenues -- Agency Request (Information Only).
7. JLBC STAFF - Index for School Facilities Board Construction Costs -- Agency Request (Information Only).

The Chairman reserves the right to set the order of the agenda.

9/25/08

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People with disabilities may request accommodations such as interpreters, alternative formats, or assistance with physical accessibility. Requests for accommodations must be made with 72 hours prior notice. If you require accommodations, please contact the JLBC Office at (602) 926-5491.

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

August 12, 2008

The Chairman called the meeting to order at 9:40 a.m., Tuesday, August 12, 2008, in Senate Appropriations Room 109. The following were present:

Members:	Senator Burns, Chairman	Representative Pearce, Vice-Chairman
	Senator Harper	Representative Adams
	Senator Waring	Representative Biggs
		Representative Boone
		Representative Cajero Bedford
		Representative Lopez
		Representative Rios
		Representative Yarbrough
Absent:	Senator Aboud	
	Senator Aguirre	
	Senator Garcia	
	Senator Verschoor	

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of June 18, 2008, Chairman Burns stated that the minutes would be approved.

DEPARTMENT OF EDUCATION

A. Review of Qwest Settlement.

Mr. Steve Schimpp, JLBC Staff, stated that this item is a request from the Department of Education (ADE) for a review of its plan to provide school districts with approximately \$12.5 million in corrected Basic State Aid for prior fiscal years pertaining to the recent Qwest settlement. The Committee has at least 2 options: a favorable review, as the department's plan conforms to statutory requirements, or an unfavorable review, given that the full Legislature did not include funding for this issue in the state budget for 2009.

Representative Pearce moved that the Committee give a favorable review to the ADE's plan to provide school districts statewide with \$12.5 million in corrected Basic State Aid funding for this issue. The motion carried.

(Continued)

B. Review of Expenditure Plan for Incentive Funding from the Workforce Investment Act.

Mr. Jay Chilton, JLBC Staff, indicated that this item is a review of Arizona Department of Education's (ADE's) FY 2009 expenditure plan for incentive funding for the Workforce Investment Act (WIA). In the past the Committee has requested that performance measures for the program be included in the statewide workforce development annual report. This is being done and FY 2008 results are expected in October. JLBC Staff recommended that those performance measures continue to be included in the report and recommended a favorable review of the request.

Representative Pearce moved that the Committee give a favorable review of the expenditure plan for incentive funding for the WIA. The motion carried.

C. Review Providing Funding to Displaced Pupils Choice Grants Program and Arizona Scholarship for Pupils with Disabilities Program under A.R.S. § 15-901.03.

Mr. Steve Schimpp, JLBC Staff, stated that this item was a request by the Chairman for consideration of a transfer up to \$5 million from Basic State Aid to the two voucher programs that were in ADE's budget for FY 2007 and FY 2008. These were commonly referred to as the Displaced Voucher and Disabled Voucher Programs. The Displaced Voucher Program serves students who have been in foster care and the Disabled Voucher Program serves students with disabilities, in both cases allowing them to get tuition funding to help pay for private school education. The FY 2009 budget did not include any funding for these programs, although the statutory authority for them remains in law. Both programs have been subject to legal challenge since their inception, with plaintiffs contending that the programs represent an illegal use of taxpayer monies for private education. In late June, as the budget was being wrapped up, however, the Supreme Court ruled that the programs could continue at least through 2009. In terms of process issues, the Department of Education has not requested a transfer for this issue; however, the Chairman wanted to help expedite a solution to the problem, given that the school year has already started and it would be another 6 weeks before the next JLBC meeting. The Committee has at least 2 options: a favorable or an unfavorable review.

The Chairman suggested that there be a third option to take no action.

Representative Biggs gave a memo to Committee members dated August 4, 2008 from Kenneth C. Behringer, General Counsel, regarding State Aid to Education; Transfers. (*Attachment 1*)

Mr. Tom Horne, State Superintendent of Schools, Arizona Department of Education, responded to member questions.

Mr. William Bell, Director, Arizona Department of Administration, responded to member questions.

Representative Biggs moved that the Committee give a favorable review to the proposed transfer.
Senator Harper requested a roll call vote.

Representative Lopez made a substitute motion for an unfavorable review.

Senator Harper requested a roll call vote.

The substitute motion failed by a roll call vote of 3-8-0-4. (*Attachment 2*)

The original motion carried by a roll call vote of 8-3-0-4. (*Attachment 2*)

DEPARTMENT OF HEALTH SERVICES - Review of Behavioral Health Title XIX Capitation Rate Changes.

Mr. Art Smith, JLBC Staff, stated that this item is a review of Department of Health Services (DHS) capitation rate changes for the behavioral health population. There are at least 2 options for this item: 1) a favorable review as the excess amount primarily addresses litigation requirements and 2) an unfavorable review as the capitation rate exceeds the budgeted amount due to program expansions.

(Continued)

Dr. Laura Nelson, Acting Deputy Director, Department of Health Services, Behavioral Health responded to member questions.

Mr. David Reese, Chief Financial Officer, Department of Health Services responded to member questions.

Representative Pearce moved that the Committee give an unfavorable review to the Behavioral Health Title XIX capitation rate changes as the rate exceeds the budgeted amount by a net of \$2 million due to program expansions.

Representative Lopez moved a substitute motion for a favorable review. The substitute motion failed.

The original motion carried.

EXECUTIVE SESSION

Representative Pearce moved that the Committee go into Executive Session. The motion carried.

At 11:35 a.m. the Joint Legislative Budget Committee went into Executive Session.

Representative Pearce moved that the Committee reconvene into open session. The motion carried.

At 12:20 p.m. the Committee reconvened into open session.

A. ARIZONA DEPARTMENT OF ADMINISTRATION - Risk Management Services - Consideration of Proposed Settlements under Rule 14.

Representative Pearce moved that the Committee disapprove the recommended settlement proposal by the Attorney General's Office in the case of Caesar Otioti, et al. v. Roger Vanderpool, et al. The motion carried.

Representative Pearce moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of Miller v. State of Arizona, et al. The motion carried.

B. ARIZONA DEPARTMENT OF ADMINISTRATION - Review for Committee the Planned Contribution Strategy for State Employee and Retiree Health Plans as Required under A.R.S. § 38-658A.

Representative Pearce moved that Committee give an unfavorable review to the planned contribution strategy for state employee and retiree health plans.

Representative Lopez moved a substitute motion for a favorable review to the planned contribution strategy for state employee and retiree health plans. The substitute motion failed.

The original motion carried.

Mr. Richard Stavneak, Director, JLBC, briefly explained the following JLBC items and recommended a favorable review for all of these items:

DEPARTMENT OF REVENUE - Review of Business Reengineering/Integrated Tax System Contract Amendment.

ATTORNEY GENERAL -

A. Review of Allocation of Settlement Monies - State v. Bill Heard Chevrolet, Inc.

B. Review of Allocation of Settlement Monies - State v. Express Scripts, Inc.

ADMINISTRATIVE OFFICE OF THE COURTS - Review of Reimbursement of Appropriated Funds.

ARIZONA STATE RETIREMENT SYSTEM - Review of FY 2009 Information Technology Expenditure Plan.

Representative Pearce moved that the Committee give a favorable review for:

- *Department of Revenue - Review of Business Reengineering/Integrated Tax System Contract Amendment,*
- *Attorney General - Review of Allocation of Settlement Monies - State v. Bill Heard Chevrolet, Inc.*
- *Attorney General - Review of Allocation of Settlement Monies - State v. Express Scripts, Inc.,*
- *Administrative Office of the Courts - Review of Reimbursement of Appropriated Funds, and*
- *Arizona State Retirement System - Review of FY 2009 Information Technology Expenditure Plan.*

The motion carried.

Mr. Stavneak also briefly explained the following item:

ARIZONA DEPARTMENT OF TRANSPORTATION - Review of Third Party Progress Report.

Representative Pearce moved that the Committee give a favorable review for the Arizona Department of Transportation - Review of Third Party Progress Report. The motion carried.

Without objection, the meeting adjourned at 12:35 p.m.

Respectfully submitted:

Sandy Schumacher, Secretary

Richard Stavneak, Director

Senator Bob Burns, Chairman

NOTE: A full audio recording of this meeting is available at the JLBC Staff Office, 1716 W. Adams. A full video recording of this meeting is available at <http://www.azleg.gov/jlbc/meeting.htm>.

LEGISLATIVE COUNCIL

MEMO

August 4, 2008

TO: Brian Lockery
Barrett Marson

FROM: Kenneth C. Behringer
General Counsel

RE: State Aid to Education; Transfers

BACKGROUND

The statutes allow for the transfer of appropriated monies from one program within an agency to another if certain requirements are met. One of these requirements is the approval of the director of the department of administration (DOA). Arizona Revised Statutes (A.R.S.) section 35-173, subsection C.

In 2005, the legislature enacted a specific provision for transfer of monies appropriated for state aid to education. These transfers may only be made after review by the joint legislative budget committee. A.R.S. section 15-901.03.

QUESTION

Do transfers of monies appropriated for state aid to education to other programs within the department of education require the approval of the DOA director?

ANSWER

No, transfers of monies appropriated for state aid to education to other programs within the department of education probably do not require the approval of the DOA director.

DISCUSSION

The provision for transfers of state aid monies specifically provides that it is "[n]otwithstanding section 35-173, subsection C". This provision states that it applies notwithstanding all of subsection C, not any portion of the subsection. It appears the legislature intended to provide separate requirements for transfers of state aid monies.

The only other interpretation of section 15-901.03 is that it is an additional requirement for transfers of state aid monies. However, had the legislature intended this interpretation, it would have provided that this section was in addition to subsection C, not notwithstanding this subsection.

Please let me know if you have any additional questions on this issue.

JOINT LEGISLATIVE BUDGET COMMITTEE

Meeting Date: 8/12/08

ITEM # 1C-Substitute motion
ADE Displaced Pupils

	<u>PRESENT</u>	<u>ABSENT</u>	PASS	AYE	NAY	PRESENT	ABSENT
SEN. ABOUD	<u> </u>	<u>✓</u>					<u>✓</u>
REP. ADAMS	<u>✓</u>	<u> </u>			<u>✓</u>		
SEN. AGUIRRE	<u> </u>	<u>✓</u>					<u>✓</u>
REP. BIGGS	<u>✓</u>	<u> </u>			<u>✓</u>		
REP. BOONE	<u>✓</u>	<u> </u>			<u>✓</u>		
REP. CAJERO BEDFORD	<u>✓</u>	<u> </u>		<u>✓</u>			
SEN. GARCIA	<u> </u>	<u>✓</u>					<u>✓</u>
SEN. HARPER	<u>✓</u>	<u> </u>			<u>✓</u>		
REP. LOPEZ	<u>✓</u>	<u> </u>		<u>✓</u>			
REP. RIOS	<u>✓</u>	<u> </u>		<u>✓</u>			
SEN. VERSCHOOR	<u> </u>	<u>✓</u>					<u>✓</u>
SEN. WARING	<u>✓</u>	<u> </u>			<u>✓</u>		
REP. YARBROUGH	<u>✓</u>	<u> </u>			<u>✓</u>		
REP. PEARCE	<u>✓</u>	<u> </u>			<u>✓</u>		
SEN. BURNS	<u>✓</u>	<u> </u>			<u>✓</u>		
TOTALS	<u>11</u>	<u>4</u>	<u> </u>	<u>3</u>	<u>8</u>	<u>0</u>	<u>4</u>

ITEM # 1C-original
ADE Displaced Pupils motion

	PASS	AYE	NAY	PRESENT	ABSENT
SEN. ABOUD					<u>✓</u>
REP. ADAMS		<u>✓</u>			
SEN. AGUIRRE					<u>✓</u>
REP. BIGGS		<u>✓</u>			
REP. BOONE		<u>✓</u>			
REP. CAJERO BEDFORD			<u>✓</u>		
SEN. GARCIA					<u>✓</u>
SEN. HARPER		<u>✓</u>			
REP. LOPEZ			<u>✓</u>		
REP. RIOS			<u>✓</u>		
SEN. VERSCHOOR					<u>✓</u>
SEN. WARING		<u>✓</u>			
REP. YARBROUGH		<u>✓</u>			
REP. PEARCE		<u>✓</u>			
SEN. BURNS		<u>✓</u>			
TOTALS	<u> </u>	<u>8</u>	<u>3</u>	<u>0</u>	<u>4</u>

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STEVE YARBROUGH

DATE: September 25, 2008

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Steve Schimpp, Deputy Director

SUBJECT: Department of Education – Review Proposed Transfer of Funds from Basic State Aid to the Structured English Immersion Fund under A.R.S. § 15-901.03.

Request

The Chairman is requesting the Committee's consideration to transfer \$646,300 from the Arizona Department of Education's (ADE's) FY 2009 appropriation for Basic State Aid to the Structured English Immersion Fund. Any transfers from the Basic State Aid appropriation would require Committee review pursuant to A.R.S. § 15-901.03.

Summary

The Committee has at least the following options regarding the proposed transfer:

1. A favorable review.
2. A favorable review that also authorizes ADE to transfer up to 25% (\$161,600) above the requested amount without additional Committee review if needed due to possible further SEI budget revisions for FY 2009.
3. An unfavorable review.

Analysis

Laws 2008, Chapter 34 appropriated \$40,653,800 to the Structured English Immersion Fund (SEI Fund) in FY 2009 in order to fully fund SEI costs that were verified by the Arizona Department of Education (ADE) pursuant to A.R.S. § 15-756.03, Subsection C. Subsequently, however, ADE has increased its estimate of FY 2009 SEI costs by \$646,300. This change is due to amended FY 2009 SEI budget requests received from school districts and the restoration of federal impact aid monies that ADE now indicates should not have been deducted in prior calculations. The federal impact aid adjustment adds

(Continued)

\$916,900 to the prior ADE estimate, while budget amendments from districts collectively reduce it by \$(270,500).

In order to cover the additional \$646,300 cost, a transfer of that amount from the General Fund appropriation for Basic State Aid for FY 2009 is being proposed. The total General Fund appropriation for Basic State Aid for FY 2009 is approximately \$3.6 billion, so the proposed transfer represents a very small percentage (less than 0.02%) of the Basic State Aid appropriation for the year. Therefore, it would be unlikely to trigger a shortfall in Basic State Aid funding on its own for FY 2009. In addition, the Basic State Aid program reverted more monies than expected for FY 2008, which suggests that it may experience lower than budgeted costs for FY 2009 as well. Actual Basic State Aid costs for FY 2009, however, will depend on a number of other factors for which data are not currently available. (On a related note, the Committee gave a favorable review at its August 12, 2008 meeting to a proposed transfer of \$5 million from Basic State Aid to the Displaced and Disabled Voucher programs.)

It is possible that SEI funding requirements for FY 2009 will be further revised in the future, as ADE continues to receive amended SEI budget requests from school districts for the current fiscal year. (Statute does not prescribe an ending date for submitting amended SEI budget requests.) As a result, the Committee may wish to consider giving ADE some limited additional transfer authority for FY 2009 above the \$646,400 requested amount without the need for further Committee review in order to allow for contingencies.

The SEI Fund was established by Laws 2006, Chapter 4 and funds school district and charter school costs for Structured English Immersion programs required by A.R.S. §15-752. Structured English Immersion programs provide “an English language acquisition process for young children in which nearly all classroom instruction is in English, but with the curriculum and presentation designed for children who are learning the language” (A.R.S. § 15-751, paragraph 5).

RS/SSC:sls

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DISTRICT 4



Arizona House of Representatives
Phoenix, Arizona 85007

MAJORITY LEADER

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JOINT COMMITTEE ON
CAPITAL REVIEW

JOINT LEGISLATIVE AUDIT
COMMITTEE

JOINT LEGISLATIVE BUDGET
COMMITTEE

LEGISLATIVE COUNCIL

September 17, 2008



Senator Burns,

Pursuant to 15-901.03, I request that the Joint Legislative Budget Committee review the transfer of monies from the Arizona Department of Education's Basic State Aid line-item to the Arizona Structured English Immersion Fund line-item in an amount necessary to fully-fund the Arizona Structured English Immersion Fund budget requests as approved by the Arizona Department of Education for FY 2008-09. The Arizona Department of Education estimates that the shortfall as of September 2, 2008 is \$646,400.

I request this review be placed on the next JLBC agenda.

Sincerely,

A handwritten signature in cursive script that reads "Tom Boone".

Tom Boone

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DATE: September 25, 2008

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Steve Schimpp, Deputy Director

SUBJECT: Department of Education – Review of Joint Technological Education District
Intergovernmental Agreements

Request

Pursuant to A.R.S. § 15-393, Subsection L, ten (of eleven) Joint Technological Education Districts (JTEDs) request Committee review of intergovernmental agreements (IGAs) that they have developed with their member school districts and affiliated community college districts. This review requirement was instituted by Laws 2006, Chapter 341, which established a number of new accountability measures for JTEDs.

Summary

The JLBC Staff recommends a favorable review of the submitted IGAs.

In addition, the JLBC Staff recommends that the Committee require JTEDs to:

1. Submit to the Committee by December 30, 2008 any missing data in *Attachment 3*.
2. Include in all subsequent IGA's:
 - non-supplanting worksheets pursuant to USFR Memo 219.
 - subtotals for district, JTED and community college funding for each member district's JTED courses as a whole.

Analysis

Laws 2006, Chapter 341 instituted a number of new accountability measures for JTEDs, including a requirement that they establish formal contracts or agreements with their member school districts and affiliated community colleges by June 30, 2007. Those agreements are to specify the respective duties and responsibilities of the JTEDs, their member school districts and affiliated community colleges. The items that must be included in these agreements are listed in A.R.S. § 15-393, Subsection L, paragraphs

(Continued)

1-9 (*see Attachment 1*) and generally pertain to governance, curriculum and finance issues. A.R.S. § 15-393, Subsection L also requires JTEDs, their member districts and affiliated community college districts to submit their initial IGAs and subsequent IGA addendums to the JLBC for review by an unspecified date. Nine of the eleven current JTEDs submitted first-time IGAs during the summer or fall of 2007 and one (the Western Maricopa Education Center [West-MEC]), submitted its first-time IGAs this past summer. One remaining JTED, the Valley Academy for Career and Technological Education (VACTE), has not yet submitted its first-time IGAs. Two of the nine JTEDs that submitted IGAs during the summer of 2007 also submitted revised IGAs in the summer of 2008. They are the East Valley Institute of Technology (EVIT) and the Pima County JTED.

Each submitted IGA typically consists of about 10 pages of “boilerplate” language dealing with governance, curriculum and finance issues followed by “exhibits” that provide additional information on course offerings and costs. For larger school districts, the exhibits take up numerous pages due to the large number of Career and Technical Education (CTE) courses that they offer. As a result, the IGAs submitted for JTEDs as a whole collectively consist of several hundreds of pages of documentation, so they are not attached. They may, however, be viewed upon request.

Some IGAs included a worksheet developed by the Auditor General that provides evidence that member districts are using JTED monies to supplement rather than supplant their own funding for CTE programs (*Attachment 2*). Most IGAs, however, did not include this worksheet. The JLBC Staff recommends that the Committee require subsequent IGAs to include the worksheet, however, since the supplanting issue historically has been a subject of much legislative interest regarding JTEDs.

Another key area of legislative interest for JTEDs historically has been the sources of funding for JTED “satellite” courses, which are CTE courses that are offered at member districts’ high schools rather than at a JTED main campus. In that regard, *Attachment 3* indicates that the member districts themselves provide between 50% and 80% of funding for “satellite” courses and that JTEDs provide the remaining 20% to 50%. One JTED, NAVIT, also reports that community colleges provide 13% of its funding. In these figures, “district” funding represents monies that member districts generate on their own from Average Daily Membership (ADM) counts in their CTE courses. “JTED” funding represents monies that JTEDs also generate from those same students and pass back to the member district.

The statistics cited in *Attachment 3* were not provided in summary form in many of the submitted IGAs and therefore had to be summed manually. This was very time-consuming due to the large number of CTE courses offered by some JTEDs. The JLBC Staff recommends that the Committee require future IGAs to report for their JTED courses as a whole the grand total amount of funding that they receive from district, JTED and community college sources (i.e., the same summary-level information appearing in *Attachment 3*).

RS/SSc:sls
Attachments

15-393. Joint technological education district governing board;
report; definition

L. Any agreement between the governing board of a joint technological education district and another joint technological education district, a school district, a charter school or a community college district shall be in the form of an intergovernmental agreement or other written contract. The auditor general shall modify the uniform system of financial records and budget forms in accordance with this subsection. The intergovernmental agreement or other written contract shall completely and accurately specify each of the following:

1. The financial provisions of the intergovernmental agreement or other written contract and the format for the billing of all services.

2. The accountability provisions of the intergovernmental agreement or other written contract.

3. The responsibilities of each joint technological education district, each school district, each charter school and each community college district that is a party to the intergovernmental agreement or other written contract.

4. The type of instruction that will be provided under the intergovernmental agreement or other written contract.

5. The quality of the instruction that will be provided under the intergovernmental agreement or other written contract.

6. The transportation services that will be provided under the intergovernmental agreement or other written contract and the manner in which transportation costs will be paid.

7. The amount that the joint technological education district will contribute to a course and the amount of support required by the school district or the community college.

8. That the services provided by the joint technological education district, the school district, the charter school or the community college district be proportionally calculated in the cost of delivering the service.

9. That the payment for services shall not exceed the cost of the services provided.

10. That any initial intergovernmental agreement or other written contract and any addendums between the governing board of a joint technological education district and another joint technological education district, a school district, a charter school or a community college district be submitted by the joint technological education district to the joint legislative budget committee for review.

Work Sheet for Determining Appearance of Supplanting with JTED Monies

Part A - Comparison of Per-Pupil Non-JTED Vocational Education Expenditures

- A.1 Base Level (from the FY's Expenditure Budget Work Sheet C)
- A.2 Inflation Factor [(Current year line A.1-Base Year line A.1)/Base Year line A.1]
- A.3 Non-JTED Vocational Education Expenditures for FY¹
- A.4 Adjusted Expenditures for Base Year [(1+ line A.2) x line A.3]
- A.5 Student Count (from the FY's Expenditure Budget Work Sheet B, line A.1)
- A.6 Per-pupil Non-JTED Vocational Education Expenditures
- A.7 Comparison of Per-pupil Non-JTED Expenditures (Line A.6, Current Year - Base Year) If negative, District appears to have supplanted vocational education expenditures with JTED monies. If applicable, see explanation on line A.8 below.
- A.8 Explanation, if any, for negative amount calculated on Line A.7

Base Year FY _01__	Current Year FY _07__
\$ 2,621.62	\$ 3,133.53
19.53%	
\$ 36,283.00	\$ 52,000.00
\$ 43,367.79	
36.398	38.900
\$ 1,191.50	\$ 1,336.76
(line A.4 / line A.5)	(line A.3 / line A.5)

\$ 145.25

Districts that are eligible for the phase-in provision of A.R.S. §15-393(D)(9), as described in USFR Memorandum No. 219, page 5, should complete Part B below to determine if the amount of JTED monies used to supplement vocational education courses from the base year met the required phase-in level.²

Part B - Calculation of Phase-In Compliance (For FYs 2006 and 2007 only)

- B.1 Total District JTED monies spent in current FY
- B.2 Per-pupil JTED expenditures (line B.1/line A.5)
- B.3 Percentage of JTED Monies used to Supplement Vocational Education Courses From the Base Year [lines (B.2 + A.7)/B.2]²

\$ -
100.0%

¹ Refer to USFR Memorandum No. 219, page 2, for a description of the expenditures to include on this line. Additionally, JTED member districts with a base year prior to 1998, the first year that the vocational education Group B weight was replaced with the state block grant for vocational education, should reduce the M&O expenditures reported on this line for the base year by the amount of funding generated by the vocational education Group B weight in their base year, as calculated by ADE.

² The percentage of JTED monies that must be used to supplement vocational education courses from the base year is 33% in FY 2006 and 66% in FY 2007.

070618885

Joint Technological Education District (JTED) IGA Cost Summary
 JLBC Staff
 9/5/2008

Notes:

1. The tables below summarize self-reported budget data in submitted IGA's. They list the member districts that belong to each JTED and provide a breakdown of funding spent on those courses.
2. "District" funding represents monies that member districts themselves contribute to operate Career and Technical Education courses. "JTED" funding represents monies that JTEDs generate through the Average Daily Membership (ADM) counts that they also generate through those courses and then pass onto the member districts. One JTED (NAVIT) also reports funding that local community colleges provide to help fund JTED courses.

Table 1: Coconino Association for Vocations, Industry & Technology (CAVIAT)

Member District	# of JTED Courses	Funding By Source				Total
		District		JTED		
		\$	%	\$	%	
Flagstaff Unified	107	959,200	46%	1,125,500	54%	2,084,700
Fredonia-Moccasin Unified	13	137,600	61%	88,000	39%	225,600
Grand Canyon Unified	3	37,700	58%	27,300	42%	65,000
Page Unified	48	931,800	52%	875,500	48%	1,807,300
Williams Unified	16	150,200	56%	120,300	44%	270,500
Subtotals	187	2,216,500	50%	2,236,600	50%	4,453,100

Table 2: Central Arizona Valley Institute of Technology (CAVIT)

Member District	# of JTED Courses	Funding By Source				
		District		JTED		Total
		\$	%	\$	%	
Casa Grande Union HS	98	1,154,100	58%	842,900	42%	1,997,000
Coolidge Unified	37	608,400	76%	192,500	24%	800,900
Florence Unified	30	359,200	66%	185,100	34%	544,300
Maricopa Unified		(no data)				
Santa Cruz Union HS	17	170,400	68%	79,000	32%	249,400
Subtotals	182	2,292,100	64%	1,299,500	36%	3,591,600

Table 3: Cochise Technology District (CTD)

Member District	# of JTED Courses	Funding By Source				Total
		District		JTED		
		\$	%	\$	%	
Benson Unified	24	287,300	58%	210,400	42%	497,700
Bowie Unified	4	58,600	58%	42,500	42%	101,100
Douglas Unified	57	(data incomplete)				
San Simon Unified	7	88,800	64%	49,000	36%	137,800
St. David Unified	18	218,000	62%	134,900	38%	352,900
Tombstone Unified	21	167,600	42%	228,100	58%	395,700
Valley Union HS	5	135,800	56%	105,600	44%	241,400
Willcox Unified	29	371,700	50%	372,900	50%	744,600
Subtotals	165	1,327,800	54%	1,143,400	46%	2,471,200

Table 4: Cobre Valley Institute of Technology (CVIT)

Member District	# of JTED Courses	Funding By Source				
		District		JTED		Total
		\$	%	\$	%	
Hayden-Winkelman Unified	4	67,500	81%	15,500	19%	83,000
Miami Unified	18	54,900	83%	11,200	17%	66,100
San Carlos Unified	24	36,000	85%	6,300	15%	42,300
Superior Unified	15	185,700	78%	52,400	22%	238,100
Subtotals	61	344,100	80%	85,400	20%	429,500

Table 5: East Valley Institute of Technology (EVIT)

Member District	# of JTED Courses	Funding By Source				
		District		JTED		Total
		\$	%	\$	%	
Apache Junction Unified	17	(no data)				
Chandler Unified	105					
Fountain Hills Unified	9					
Gilbert Unified	98					
Higley Unified	17					
Mesa Unified	311					
Queen Creek Unified	(no IGA)					
Scottsdale Unified	95					
Tempe Union HS District	230					
Subtotals	882					

Table 6: Gila Institute for Technology (GIFT)

Member District	# of JTED Courses	Funding By Source				
		District		JTED		Total
		\$	%	\$	%	
Duncan Unified	16	135,700	64%	75,000	36%	210,700
Fort Thomas Unified	15	186,300	68%	89,000	32%	275,300
Pima Unified	17	280,400	73%	106,000	27%	386,400
Safford Unified	26	760,500	65%	408,600	35%	1,169,100
Solomon Elementary		(no data)				
Thatcher Unified	13	229,300	64%	129,500	36%	358,800
Subtotals	87	1,592,200	66%	808,100	34%	2,400,300

Table 7: Northeast Arizona Technological Institute of Vocational Education (NATIVE)

Member District	# of JTED Courses	Funding By Source				
		District		JTED		Total
		\$	%	\$	%	
Chinle Unified	51	603,900	66%	315,300	34%	919,200
Ganado Unified	31	456,100	64%	255,400	36%	711,500
Kayenta Unified	28	615,300	71%	251,300	29%	866,600
Pinon Unified	20	456,400	76%	144,100	24%	600,500
Red Mesa Unified	31	681,800	84%	129,900	16%	811,700
Sanders Unified	19	335,900	82%	72,700	18%	408,600
Tuba City Unified	33	853,800	82%	187,400	18%	1,041,200
Window Rock Unified	32	415,200	55%	346,600	45%	761,800
Subtotals	245	4,418,400	72%	1,702,700	28%	6,121,100

Table 8: Northern Arizona Vocational Institute for Technology (NAVIT)

Member District	# of JTED Courses	Funding By Source						
		District		JTED		Comm College		Total
		\$	%	\$	%	\$	%	
Blue Ridge Unified	18	876,100	72%	320,700	27%	13,200	1%	1,210,000
Heber-Overgaard Unified	10	99,300	55%	73,800	41%	6,600	4%	179,700
Holbrook Unified	12	384,500	41%	340,700	37%	205,000	22%	930,200
Joseph City Unified	9	387,600	73%	119,600	23%	20,800	4%	528,000
Round Valley Unified	8	767,500	89%	50,800	6%	40,200	5%	858,500
Payson Unified	4	282,400	62%	155,800	34%	18,700	4%	456,900
Show Low Unified	14	321,300	43%	361,500	48%	67,800	9%	750,600
Snowflake Unified	12	585,400	61%	374,100	39%	3,800	0%	963,300
St. Johns Unified	7	581,200	74%	190,900	24%	15,300	2%	787,400
Whiteriver Unified	13	9,000	2%	25,900	4%	550,500	94%	585,400
Winslow Unified	19	644,800	50%	495,300	38%	156,900	12%	1,297,000
Subtotals	126	4,939,100	58%	2,509,100	29%	1,098,800	13%	8,547,000

Table 9: Pima County JTED

Member District	# of JTED Courses	Funding By Source				
		District		JTED		Total
		\$	%	\$	%	
Ajo Unified	9	(breakdown provided by type of expenditure, but not by source)				209,200
Amphitheater Unified	31					1,107,500
Catalina Foothills Unified	10					426,200
Flowing Wells Unified	14					485,000
Indian Oasis Unified	4					283,900
Marana Unified	32					1,089,300
Sahuarita Unified	13					462,900
Sunnyside Unified	43					1,578,900
Tanque Verde Unified	4					167,800
Tucson Unified	123					6,530,100
Vail Unified	13					559,600
Subtotals	296					12,900,400

Table 10: Valley Academy for Career and Technological Education (VACTE)

Member District	# of JTED Courses	Funding By Source				
		District		JTED		Total
		\$	%	\$	%	
Camp Verde Unified	(IGA's not submitted)					
Clarkdale-Jerome Unified						
Cottonwood-OC Unified						
Mingus Union HS District						
Sedona-Oak Creek Unified						
Subtotals						

Table 11: Western Maricopa Education Center (West-MEC)

Member District	# of JTED Courses	Funding By Source				
		District		JTED		Total
		\$	%	\$	%	
Agua Fria Union	27	(data not reported by source)				725,000
Buckeye Union	67	(data not reported by source)				767,500
Deer Valley Unified		(no data)				
Dysart Unified		(IGA not submitted)				
Glendale Union	279	0	0%	6,180,000	100%	6,180,000
Paradise Valley Unified		(IGA not submitted)				
Peoria Unified		(no data)				
Saddle Mountain Unified	5	(data not reported by source)				92,000
Wickenburg Unified	4	(separate JTED data not reported)				
Subtotals						

STATE OF ARIZONA

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STEVE YARBROUGH

DATE: September 25, 2008

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Steve Schimpp, Deputy Director

SUBJECT: Department of Education – Report of Plan to Fund AIMS Study Guides with
Achievement Testing Monies

Request

Pursuant to a footnote in the General Appropriation Act, the Arizona Department of Education (ADE) is reporting its plan to spend \$1 million in surplus Proposition 301 monies for Achievement Testing on AIMS study guides in FY 2009.

Recommendation

This item is for information only and no Committee action is required.

Analysis

A footnote in the General Appropriation Act states that “Before making any changes to the Achievement Testing program that will increase program costs, the State Board of Education shall report the estimated fiscal impact of those changes to the Joint Legislative Budget Committee.” In recognition of this footnote, ADE has submitted to the Committee a report of its plan to use \$1 million in surplus Proposition 301 monies from FY 2008 to fund the cost of AIMS study guides in FY 2009.

Background

In August 2006, ADE awarded a contract to McGraw-Hill to provide Arizona with AIMS Study Guides for FY 2007 and FY 2008. At the time, substantial surpluses were accumulating in the Failing Schools Tutoring Fund established by Proposition 301 and it was envisioned that the Fund would cover costs of the study guides. Subsequently, however, tutoring caseloads increased dramatically and the Fund was not able to pay for both tutoring costs and AIMS Study Guides. As a result, ADE reported to the Committee in May 2007 its intent to use \$3.6 million in surplus Achievement Testing monies to pay for AIMS Study Guides for FY 2008. The Committee gave a favorable review to that report. AIMS study guides, therefore, were funded with a combination of Failing Schools Tutoring Fund and Achievement Testing monies for FY 2007 and FY 2008.

(Continued)

FY 2009 Costs

For FY 2009, ADE plans to continue to provide AIMS Study Guides, but only to 11th graders in order to cut costs. (Previously study guides also were provided to 12th graders who had not yet passed AIMS and to 9th graders who had failed the 8th grade AIMS test.) The estimated cost of study guides for FY 2009 is \$1 million. ADE again plans to cover this cost with surplus Proposition 301 monies, which come from a \$3.2 million annual appropriation of Proposition 301 monies to the Achievement Testing program pursuant to A.R.S. § 42-5029(E)(7). ADE indicates that it carried forward approximately \$1.8 million in Proposition 301 monies for Achievement Testing from FY 2008 (*see Attachment 1*). If not used for AIMS Study Guides, the \$1.8 million probably would be carried forward into FY 2010. Alternatively, it could be used to help defray General Fund costs for Achievement Testing for FY 2009.

Related Issue

On a related note, ADE has recently issued an update regarding changes in AIMS contract costs for FY 2009 for items other than AIMS study guides. In that report, ADE indicates that recently-signed contract modifications will increase AIMS costs by approximately \$1 million for FY 2009. This includes approximately \$0.7 million for higher caseloads than were assumed in the original AIMS contract and \$0.4 million for higher page counts per test due to past design changes. The \$1 million increase should not affect the AIMS study guide funding plan described above as it was already factored in.

RS/SSC:sls



State of Arizona
Department of Education

Tom Horne
Superintendent of
Public Instruction

August 19, 2008



Mr. Robert Burns, JLBC Chairman
Joint Legislative Budget Committee
1716 W. Adams
Phoenix, AZ 85007

Re: AIMS Study Guides

Dear Mr. Burns:

This memorandum is submitted to you pursuant the General Appropriation Act footnote, " Before making any changes to the Achievement Testing program that will increase program costs, the State Board of Education shall report the estimated fiscal impact of those changes to the Joint Legislative Budget Committee."

The Arizona Department of Education is requesting the approval to fund AIMS Study Guides for those new eleventh grade students that have not met the standard in reading, writing and mathematics. These students need additional support in order to master the Arizona Academic Content Standards and demonstrate the skills and knowledge identified in those Standards. Those new eleventh grade students are students that have not received AIMS Study Guides in the past and would benefit from the individualized study guide that focus on the specific strengths and needs of each individual student . These study guides will provide a personal learning path designed to improve the skills each student needs to improve .

The estimated cost is approximately \$1.1 Million (see attachment) which the department has identified FY 2008 Prop 301 carryover funds that are available to support this request. Pursuant to the department's letter of July 2, 2008 to JLBC Director, Richard Stavneak, the FY 2009 AIMS contract costs is estimated at \$9,943,995. With this additional cost for the study guides the total cost would be \$11,143,995. The department's revenue for AIMS testing is as follows:

General Funds -	\$ 7,705,900
FY 2009 Prop 301	\$ 2,340,300
FY 2008 Prop 301	<u>\$ 1,764,166</u>
Combine Total	\$11,810,366

After all current costs for the AIMS contract and the estimated costs for the AIMS Study Guides there would be approximately \$666,371 of general funds for any additional contract amendments. I appreciate your positive review of this request.

Sincerely,

Vicki G. Salazar

Vicki G. Salazar
Associate Superintendent of Business and Finance
(602) 542-3139

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: September 25, 2008

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Jay Chilton, Fiscal Analyst

SUBJECT: Department of Economic Security – Review of Requested Transfer of Appropriations and Report on Additional Domestic Violence Shelter Fund and Child Support Enforcement Administration Fund Spending

Request

Pursuant to FY 2009 General Appropriation Act footnotes, the Department of Economic Security (DES) requests that the Committee review a transfer of funding involving the Day Care Subsidy Special Line Item (SLI), the Temporary Assistance for Needy Families (TANF) Cash Benefits SLI, and the Tribal Pass-Through Funding SLI. Pursuant to additional General Appropriation Act footnotes, DES is also reporting the intended use of additional revenue for the Domestic Violence Shelter Fund and state share of retained earnings, fees, and federal incentives for Child Support Enforcement.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the 2 transfer requests. The maintenance of effort transfer does not change the total dollar amounts available for the Day Care Subsidy SLI and the TANF Cash Benefits SLI and will only change the fund allocation between the 2 line items. The transfer will enable DES to comply with technical federal requirements associated with the receipt of \$40 million in additional TANF funding in FY 2009. The Tribal Pass-Through transfer shifts General Fund dollars from the TANF Cash Benefits SLI to the Tribal Pass-Through SLI to pass funding that has historically been spent in support of the San Carlos Apache Tribe through directly to the Tribe, as it now operates its own TANF Program.

The other 2 items do not require Committee review and no Committee action is required.

Analysis

Maintenance of Effort Transfer

DES currently receives \$226.6 million in TANF Block Grant funding from the federal government each year. These monies are spent for a variety of purposes throughout the agency. One of the conditions for

(Continued)

receiving this money is that DES must expend at least a minimum amount of state money on qualifying programs. This is known as maintenance of effort (MOE). Qualifying programs are those that assist needy families so that children can be cared for in their own homes and that reduce the dependency of needy parents by promoting job preparation, work, and marriage. Historically, the majority of state MOE spending has been in the TANF Cash Benefits program and in the Child Care program.

For FY 2009, DES received an additional \$40 million from the TANF Contingency Fund, which is set aside by the federal government for states meeting certain requirements such as caseload increases. According to federal law, expenditures made for child care services can no longer be counted toward the state's MOE when a state qualifies for and receives TANF Contingency Fund dollars. Because of this restriction, DES proposes a General Fund appropriation transfer of \$58,000,000 from the Day Care Subsidy SLI to the TANF Cash Benefits SLI. DES would then make a corresponding \$58,000,000 transfer of TANF Block Grant monies from the TANF Cash Benefits SLI to the Day Care Subsidy SLI. Moving the General Fund dollars from the Day Care Subsidy SLI to the TANF Cash Benefits SLI will enable DES to count them toward the state's MOE in FY 2009 and will allow DES to qualify to receive the TANF Contingency dollars. This transfer does not change the total funding in either program.

DES received \$30 million in TANF Contingency Fund money in FY 2008, and the Committee favorably reviewed a similar transfer of \$45.3 million in April of this year after that money was appropriated as supplemental funding in the FY 2008 budget revisions.

Tribal Pass-Through Transfer

DES also requests review of a transfer of \$793,600 General Fund from the TANF Cash Benefits SLI to the Tribal Pass-Through SLI. Beginning May 1, 2008, the San Carlos Apache Tribe began operating its own TANF program. This transfer will shift the state funding that has historically been expended in support of the Tribe by the agency directly to the Tribe, enabling the Tribe to meet its MOE requirement. While this transfer would decrease the General Fund total for the TANF Cash Benefits SLI, the amount of the decrease would only be the amount that was already spent in support of the San Carlos Apache Tribe, and the transfer would result in no net change in the agency's General Fund spending.

Domestic Violence Shelter Fund

The General Appropriation Act appropriates all Domestic Violence Shelter Fund monies above \$1.7 million to DES for the Domestic Violence Prevention SLI and requires DES to report the intended use of the monies to the Committee. The Criminal Justice Budget Reconciliation Bill (Laws 2008, Chapter 286) increased a number of court fees, some of which are deposited into the Domestic Violence Shelter Fund. DES estimates that these increased fees will generate an additional \$700,000 in revenue in FY 2009. DES proposes to use that increased revenue to increase spending from the Domestic Violence Shelter Fund and to correspondingly decrease General Fund spending in that program as part of the implementation of the agency's \$5.25 million lump sum reduction.

Division of Child Support Enforcement

The General Appropriation Act appropriates all Child Support Enforcement Administration (CSEA) Fund receipts above \$15.2 million for the Division of Child Support Enforcement (DCSE) operating expenditures and requires DES to report the intended use of the monies to the Committee. In FY 2009, DES is planning to recognize occupancy costs within the divisions in which they are incurred rather than all within the Administration Division. As a result, DES intends to use \$1 million from the CSEA Fund along with related federal expenditure authority in order to fund occupancy costs in DCSE. This item does not represent an increase in funding for DES overall, but simply a shift of the spending for occupancy from the Administration Division, where CSEA funds are non-appropriated, to DCSE, where they must be appropriated.



ARIZONA DEPARTMENT OF ECONOMIC SECURITY

1717 W. Jefferson - P.O. Box 6123 - Phoenix, AZ 85005

Janet Napolitano
Governor

Tracy L. Wareing
Director

AUG 11 2008



Mr. Richard Stavneak
Director, Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007

Dear Mr. Stavneak:

The Department of Economic Security requests to be placed on the Joint Legislative Budget Committee's agenda for review of the following appropriation transfers. In addition, the Department is providing notification of the need to utilize a footnote regarding the Child Support Enforcement program and one relating to the Domestic Violence Shelter Fund.

Temporary Assistance for Needy Families Cash Benefits and Child Care

Pursuant to Laws 2008, Chapter 285, Section 6, the Department requests review of a \$793,600 General Fund appropriation transfer from the Temporary Assistance for Needy Families (TANF) Cash Benefits special line item to the Tribal Pass-Through Funding special line item for the San Carlos Apache Tribe as well as a transfer of \$58,000,000 of TANF funds from the TANF Cash Benefits special line item to the Day Care Subsidy special line item along with a transfer of the corresponding amount of General Fund from the Day Care Subsidy line item to the TANF Cash Benefits line item.

Notwithstanding section 35-173, subsection C, Arizona Revised Statutes, any transfer to or from the \$125,148,000 appropriated for temporary assistance for needy families cash benefits requires review by the joint legislative budget committee.

The amounts appropriated for day care subsidy and transitional child care shall be used exclusively for child care costs unless a transfer of monies is reviewed by the joint legislative budget committee. Monies shall not be used from these appropriated amounts for any other expenses of the department of economic security unless a transfer of monies is reviewed by the joint legislative budget committee.

The Tribe began operating its own TANF program on May 1, 2008, and is now responsible for the payment of TANF Cash Benefits as well as providing for Jobs services to all Tribal members. This General Fund support is consistent with support provided to other Tribes who are currently operating their own TANF programs and will allow the Tribe to meet the requirements of the TANF program through the federal Department of Health and Human Services.

According to federal law, expenditures made for child care services cannot be counted toward the state's maintenance of effort (MOE) requirement when a state qualifies for and receives TANF contingency fund dollars. As was necessary last year, General Fund dollars must be transferred from the Day Care Subsidy line item to the TANF Cash Benefits line item to enable the Department to meet the MOE requirements of the TANF contingency dollars.

Domestic Violence Shelter Fund

Laws 2008, Chapter 286 increased a number of court fees, a portion of which is deposited into the Domestic Violence Shelter Fund. The estimated additional revenue that will be generated will allow the Department to increase spending from this Fund by \$700,000 while reducing the General Fund appropriation by the same amount as part of the implementation of the \$5,250,000 lump sum reduction included in Laws 2008, Chapter 285, Section 6. The use of these additional funds is allowable pursuant to a footnote in the same section of Laws 2008, Chapter 285:

All domestic violence shelter fund monies above \$1,700,000 received by the department of economic security are appropriated for the domestic violence prevention line item. The department of economic security shall report the intended use of the monies above \$1,700,000 to the joint legislative budget committee.

Division of Child Support Enforcement

Laws 2008, Chapter 285, Section 6 includes the following footnote:

All state share of retained earnings, fees and federal incentives above \$15,119,600 received by the division of child support enforcement are appropriated for operating expenditures. New full-time equivalent positions may be authorized with the increased funding. The division of child support enforcement shall report the intended use of the monies to the president of the senate, the speaker of the house of representatives, the chairpersons of the senate and house of representatives appropriations committees and the director of the joint legislative budget committee and the director of the governor's office of strategic planning and budgeting.

The Department intends to utilize \$1,000,000, along with the related federal authority, in order to fund expenditures related to occupancy. This additional authority is necessary due to the fact that, beginning in fiscal year 2009, occupancy costs will be incurred within the Divisions' operating appropriations to better reflect the actual costs of the programs. This notification is not

Mr. Richard Stavneak

Page 3

an increase in costs; rather, it allows the Department to recognize these expenditures in the Division of Child Support Enforcement.

If you have any questions, please contact Stephen Pawlowski, Chief Financial Officer, at (602) 542-3786.

Sincerely,

A handwritten signature in black ink, appearing to read "Tracy L. Wareing". The signature is fluid and cursive, with the first name "Tracy" being more prominent.

Tracy L. Wareing
Director

cc: Members of the Joint Legislative Budget Committee
James Apperson, Director, Governor's Office of Strategic Planning and Budgeting

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STEVE YARBROUGH

DATE: September 25, 2008

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Dan Hunting, Fiscal Analyst

SUBJECT: Arizona Department of Administration – Review of Risk Management Deductible

Request

Deductible amounts charged to agencies for property, liability, or workers' compensation losses are subject to annual review in accordance with A.R.S. § 41-621. The Arizona Department of Administration (ADOA) recommends a continuation of the current \$10,000 deductible, and requests Committee review of this request.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the \$10,000 deductible amount.

Analysis

A.R.S. § 41-621 provides that the ADOA Director may impose deductibles of up to \$10,000 per risk management loss on state agencies. Such deductible amounts are subject to annual review by the Joint Legislative Budget Committee (JLBC).

ADOA may charge a \$10,000 deductible for each claim of \$150,000 or more unless the agency implements an ADOA approved plan to limit or eliminate similar future losses. ADOA may also impose the deductible in cases where there have been a significant violation of agency policy and procedures. ADOA maintains the right to waive any deductible for just cause or in the best interests of the state. ADOA assesses this deductible early in the claim process, rather than waiting until a final settlement has been established. Actual payment of the deductible is deferred until the final settlement has been reached.

Prior to FY 2007, ADOA had never imposed the deductible. Since then, there have only been 2 cases where the deductible was assessed, 1 in FY 2007 and 1 in FY 2008. In both instances the Department of Economic Security paid the deductible for Child Protective Services cases in which the agency failed to follow policies and practices.

RS/DH:ck

JANET NAPOLITANO
GOVERNOR



WILLIAM BELL
DIRECTOR

ARIZONA DEPARTMENT OF ADMINISTRATION
RISK MANAGEMENT SECTION

100 North 15th Ave., Suite 301
PHOENIX, ARIZONA 85007-2635
(602) 542-2182 FAX (602) 542-1473



August 19, 2008

The Honorable Robert L. Burns, Chairman
The Joint Legislative Budget Committee
Arizona State Senate
1700 West Washington
Phoenix, AZ 85007

Dear Senator Burns:

Pursuant to ARS 41-621E, the Director of the Department of Administration may impose on state departments, agencies, boards and commissions a deductible of not more than ten thousand dollars per loss that arises out of a property, liability or workers' compensation loss pursuant to this subsection. Deductible amounts established by the Director shall be subject to annual review by the Joint Legislative Budget Committee.

The deductible amount established by the Director is \$10,000 and has not changed for at least the last five years. Risk Management has used the deductible program as an incentive for state agencies to provide an adequate mitigation plan for large civil liability settlements or judgments. Since our previous report, a deductible of \$10,000 has been issued to the Arizona Department of Economic Security.

We do not plan to make any changes to the deductible amount.

Sincerely,

A handwritten signature in cursive script, appearing to read "Ray Di Ciccio".

Ray Di Ciccio
State Risk Manager

xc: Charlotte Hosseini, ADOA Deputy Director
Paul Shannon, ADOA Assistant Director
Dan Hunting, Budget Analyst, JLBC
Matt Gottheiner, Budget Analyst, OSPB

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

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DATE: September 25, 2008

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Art Smith, Fiscal Analyst

SUBJECT: Department of Health Services – Review of Children’s Rehabilitative Services Capitation Rate Changes

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Health Services (DHS) is required to present an expenditure plan to the Committee for its review prior to implementing any change in capitation rates for the Title XIX Children’s Rehabilitative Services (CRS) program. Excluding the administrative component, the proposed changes would save the General Fund \$1,378,300 from the FY 2009 budgeted amount. The weighted capitation rate change is 14.9% above FY 2008. In comparison, the budget assumed a 20.9% capitation rate increase, excluding administration.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review, as the CRS capitation rates are within the FY 2009 budgeted amount.
2. An unfavorable review.

Under either option, JLBC Staff recommends that the Committee require that any capitation rate savings be reverted and not transferred for program expansions or to offset lump sum reductions.

Analysis

The proposed rates are based upon an actuarial study, which is required by the federal government. A.R.S. § 36-2901.06 limits capitation rate adjustments to utilization and inflation unless those changes are approved by the Legislature or are specifically required by federal law or court mandate. The proposed changes do meet the guidelines outlined in statute.

The CRS program provides services for children with chronic and disabling or potentially disabling conditions. The contractor is reimbursed using a per-member/per-month (PM/PM) capitation rate that includes a high, medium and low tier, which represent varying degrees of medical acuity. *Attachment 1*

(Continued)

displays the FY 2009 budgeted and proposed rates by medical acuity and details the changes from FY 2008.

The capitation rates include adjustments for shifting some Children's Rehabilitative Services costs from AHCCCS to DHS as well as other adjustments.

AHCCCS Cost Shift

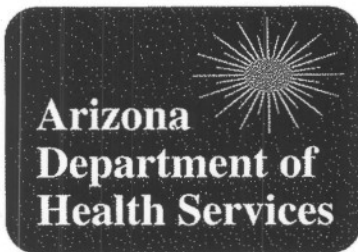
AHCCCS is shifting the responsibility for payment of specific services to the Children's Rehabilitative Services (CRS) contractor when those services are directly related to a member's CRS condition. AHCCCS has stated that the shift would result in \$(341,200) in its General Fund savings. It would be expected that there would be a corresponding increase in General Fund costs to CRS of \$341,200. JLBC Staff has concluded from data provided by DHS that General Fund costs could be as high \$639,300; however, AHCCCS states that Biotech Drugs should have been excluded from the CRS actuarial estimates. Exclusion of Biotech Drugs would result in a General Fund cost of \$412,200.

- Medical Devices: Beginning October 1, 2008 coverage of cochlear implants and wheelchairs related to CRS eligible conditions will be transferred from AHCCCS to CRS. The General Fund cost of this change is \$242,000.
- Emergency Services: Beginning in FY 2009, CRS switched from using 4 contractors to provide services in the 4 designated regions of Phoenix, Tucson, Flagstaff and Yuma, to 1 contractor that will subcontract to provide services in all 4 regions. As a result of this change, the contractor will have an expanded hospital network compared to previous contractors. Effective October 1, 2008, the contractor will be financially responsible for coverage of related emergency services in those facilities that were previously covered by AHCCCS non-CRS contractors. This reflects an estimated General Fund cost of \$157,100.
- CRS Related Conditions: Beginning October 1, 2008, coverage of conditions related to or caused by CRS conditions such as diabetes resulting from cystic fibrosis and complications caused by cerebral palsy will be transferred from AHCCCS to CRS. The General Fund impact of this change is \$13,100.
- Biotech Drugs: AHCCCS will transfer coverage of certain high cost drugs to CRS in FY 2009. These changes are expected to increase the capitation rates by \$227,100 in General Fund monies.

CRS Adjustments

- Completion of Omissions: As part of an annual AHCCCS study, it was found that there were some instances where CRS services were provided, but due to incomplete documentation, records of these services were not included in the base data used to calculate the capitation rates for the FY 2009 budgeted amount. This base adjustment to the capitation rate reflects a General Fund cost of \$505,400.
- Non-Encounterable Costs: Non-encounterable costs are considered medical costs that are not factored into the base data actuaries used to calculate capitation rates. These costs could include expenses incurred by social workers and interpreters, care coordination activities, and member/family education. This adjustment is a General Fund increase of \$154,900.
- New Drug: A new drug for the treatment of Phenylketonuria, which is a genetic disorder that can lead to developmental disabilities, was approved by the FDA in 2007. This drug is estimated to have a total impact of \$72,800 in General Fund monies.
- CRS Administration: A weighted 8.7% DHS-CRS administrative component was applied to the capitation rate for DHS-related expenses, but the FY 2009 budget amount includes a 10.0% administrative component, the amount budgeted for FY 2008. Administrative costs are backed out when calculating the cost of service delivery to this population. The General Fund cost of the new administrative rate is \$388,300 above the cost of the budgeted administrative rate.

Proposed Monthly CRS Monthly Capitation Rate Changes, FY 2009					
	<u>FY 2008 Actual Rate</u> ^{1/}	<u>FY 2009 Budgeted Rate</u> ^{2/}	<u>FY 2009 Proposed Rate</u> ^{2/}	<u>FY 2009 Change Above FY 2008</u>	<u>Anticipated State Match Savings</u> ^{3/}
Phoenix	\$359.48	\$396.38	\$376.65	4.78%	(903,000)
Tucson	322.76	396.38	376.65	16.70%	(291,500)
Flagstaff	214.96	396.38	376.65	75.22%	(130,200)
Yuma	193.64	396.38	376.65	94.51%	(53,600)
Total				14.9% ^{4/}	(1,378,300)
^{1/} In FY 2008, there were 4 contractors, 1 contractor per region, which charged different capitation rates. These rates represent the average cost of providing services for high, medium and low risk groups in each region. ^{2/} Reflects one quarter of at "stub" period rates and three quarters at CY 2009 rates. For comparison purposes with single budgeted rate, reflects blending rates for high, medium, and low risk services. Beginning on October 1, 2008, CRS no longer uses 1 contractor per region, but uses 1 contractor that will serve all 4 regions. The result of this change is a uniform weighted statewide capitation rate, although the cost of service provision may still vary by region. ^{3/} Represents rates for services only. The administrative components of the rates are not shown here. ^{4/} Represents change from FY 2008 Actual Rate to FY 2009 Proposed Rate.					



Office of the Director

150 N. 18th Avenue, Suite 560
Phoenix, Arizona 85007-2670
(602) 542-1025
(602) 542-1062 FAX

JANET NAPOLITANO, GOVERNOR
JANUARY CONTRERAS, ACTING DIRECTOR

September 8, 2008

The Honorable Russell Pearce
Joint Legislative Budget Committee
Arizona House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007



Dear Representative Pearce:

Pursuant to a footnote in the General Appropriation Act, the Arizona Department of Health Services respectfully requests to be placed on the Joint Legislative Budget Committee's (JLBC) agenda for its next scheduled meeting to review the proposed changes to the Children's Rehabilitative Services (CRS) Title XIX and Title XXI capitation rates for the stub period of July 1, 2008 to September 30, 2008 and the Children's Rehabilitative Services Title XIX and Title XXI capitation rates for the contract year ending September 30, 2009 (CYE 09).


Enclosed please find the following final reports prepared to develop capitation rates for the Department during the fiscal year July 1, 2008 to June 30, 2009 (FY09):

- CRS Title XIX and Title XXI for stub period July 1, 2008 to September 30, 2008
- CRS Title XIX and Title XXI for period October 1, 2008 to September 30, 2009

In accordance with the Centers for Medicare & Medicaid Services and the Balanced Budget Act of 1997, the rates were developed using actuarially sound methodologies by Mercer Government Human Services Consulting. The Arizona Health Care Cost Containment System (AHCCCS) has reviewed and approved the proposed stub period capitation rates.

If you have any questions please feel free to call Cynthia Layne, Chief Financial Officer for Children's Rehabilitative Services, at (602) 542-2879.

Sincerely,


January Contreras
Acting Director

JC: tsg

c: Senator Robert Burns, Senate Appropriations Chairman
Gina Flores, Policy Advisor, Health/Human Services, Governor's Office
Jim Apperson, Deputy Chief of Staff, Finance/Budget
Chris Hall, Budget Analyst, Office of Strategic Planning & Budgeting
Richard Stavneak, Director, Joint Legislative Budget Committee
Arthur Smith, Fiscal Analyst, Joint Legislative Budget Committee
Jim Humble, Assistant Director, CFO, Department of Health Services, BFS
Dr. Laura Nelson, Acting Deputy Director, Department of Health Services, BHS
Joan Agostinelli, Administrator, Department of Health Service, CRS
David Reese, Chief Financial Officer, Department of Health Services, BHS
Cynthia Layne, Chief Financial Officer, Department of Health Services, CRS
Kari Price, Finance Administrator, AHCCCS, Division of Health Care Management,
Anthony Rodgers, AHCCCS, Director

Phoenix - High

SFY05 & SFY06 Member Months: **59,096**

Category of Service	Base Data - SFY05 & SFY06 Encounters			Annual Trend ¹			Trended Stub Period Encounters ²			Service Delivery		
	Util/1000	Unit Cost	PMPM	Util/1000	Unit Cost	PMPM	Util/1000	Unit Cost	PMPM	New Technology	Network Access	Claim Cost PMPM
Inpatient	958.06	\$ 2,995.94	\$ 239.19	-2.8%	9.5%	6.5%	890.43	\$ 3,801.85	\$ 282.11	\$ -	\$ -	\$ 282.11
Outpatient	1,161.87	\$ 292.27	\$ 28.30	1.3%	5.3%	6.6%	1,200.39	\$ 334.28	\$ 33.44	\$ -	\$ -	\$ 33.44
Physician	12,071.21	\$ 112.74	\$ 113.40	1.3%	2.5%	3.8%	12,471.33	\$ 120.28	\$ 125.01	\$ -	\$ -	\$ 125.01
Pharmacy	2,395.11	\$ 279.82	\$ 55.85	4.3%	11.8%	16.5%	2,671.63	\$ 374.56	\$ 83.39	\$ 3.29	\$ -	\$ 86.68
DME	836.62	\$ 79.88	\$ 5.57	1.3%	5.0%	6.3%	864.35	\$ 90.79	\$ 6.54	\$ -	\$ -	\$ 6.54
Non-Physician Professional	571.26	\$ 144.18	\$ 6.86	0.2%	4.5%	4.8%	575.01	\$ 161.84	\$ 7.76	\$ -	\$ -	\$ 7.76
Lab/Radiology	893.05	\$ 32.23	\$ 2.40	1.3%	1.5%	2.8%	922.65	\$ 33.51	\$ 2.58	\$ -	\$ -	\$ 2.58
Dental	137.62	\$ 56.84	\$ 0.65	2.3%	2.5%	4.8%	145.90	\$ 60.64	\$ 0.74	\$ -	\$ -	\$ 0.74
Other	3,500.92	\$ 18.82	\$ 5.49	2.3%	2.5%	4.8%	3,711.49	\$ 20.08	\$ 6.21	\$ -	\$ -	\$ 6.21
Non-Encounterable Expenses			\$ 4.79			3.0%			\$ 5.17	\$ -	\$ -	\$ 5.17
Total			\$ 462.50	1.5%	5.4%	7.0%			\$ 552.94	\$ 3.29	\$ -	\$ 556.23

Administration 10.4%	\$ 66.52
Underwriting Profit / Risk / Contingency 2.5%	\$ 15.97
Contractor Capitation Rate	\$ 638.72
CRS Administration	\$ 60.31
Fully Loaded Capitation Rate	\$ 699.02

1 - Annual trend factors are applied for 31.5 months.

2 - Stub period is from July 1, 2008 to September 30, 2008.

Phoenix - Medium

SFY05 & SFY06 Member Months: **99,591**

Category of Service	Base Data - SFY05 & SFY06 Encounters			Annual Trend ¹			Trended Stub Period Encounters ²			Service Delivery		
	Util/1000	Unit Cost	PMPM	Util/1000	Unit Cost	PMPM	Util/1000	Unit Cost	PMPM	New Technology	Network Access	Claim Cost PMPM
Inpatient	389.91	\$ 2,392.64	\$ 77.74	-2.8%	9.5%	6.5%	362.39	\$ 3,036.26	\$ 91.69	\$ 1.35	\$ -	\$ 93.04
Outpatient	778.46	\$ 533.44	\$ 34.61	1.3%	5.3%	6.6%	804.27	\$ 610.12	\$ 40.89	\$ -	\$ -	\$ 40.89
Physician	9,865.09	\$ 79.42	\$ 65.29	1.3%	2.5%	3.8%	10,192.08	\$ 84.74	\$ 71.97	\$ -	\$ -	\$ 71.97
Pharmacy	2,265.54	\$ 276.41	\$ 52.19	4.3%	11.8%	16.5%	2,527.09	\$ 370.00	\$ 77.92	\$ -	\$ -	\$ 77.92
DME	1,411.74	\$ 177.64	\$ 20.90	1.3%	5.0%	6.3%	1,458.53	\$ 201.92	\$ 24.54	\$ -	\$ -	\$ 24.54
Non-Physician Professional	1,871.28	\$ 81.55	\$ 12.72	0.2%	4.5%	4.8%	1,883.58	\$ 91.54	\$ 14.37	\$ -	\$ -	\$ 14.37
Lab/Radiology	643.43	\$ 45.72	\$ 2.45	1.3%	1.5%	2.8%	664.76	\$ 47.54	\$ 2.63	\$ -	\$ -	\$ 2.63
Dental	424.09	\$ 76.06	\$ 2.69	2.3%	2.5%	4.8%	449.60	\$ 81.15	\$ 3.04	\$ -	\$ -	\$ 3.04
Other	1,128.07	\$ 57.08	\$ 5.37	2.3%	2.5%	4.8%	1,195.92	\$ 60.91	\$ 6.07	\$ -	\$ -	\$ 6.07
Non-Encounterable Expenses			\$ 2.87			3.0%			\$ 3.10	\$ -	\$ -	\$ 3.10
Total			\$ 276.81	1.5%	6.1%	7.7%			\$ 336.23	\$ 1.35	\$ -	\$ 337.58

Administration 10.3%	\$ 39.70
Underwriting Profit / Risk / Contingency 2.5%	\$ 9.67
Contractor Capitation Rate	\$ 386.96
CRS Administration	\$ 36.39
Fully Loaded Capitation Rate	\$ 423.35

1 - Annual trend factors are applied for 31.5 months.

2 - Stub period is from July 1, 2008 to September 30, 2008.

Phoenix - Low

SFY05 & SFY06 Member Months: **79,502**

Category of Service	Base Data - SFY05 & SFY06 Encounters			Annual Trend ¹			Trended Stub Period Encounters ²			Service Delivery		Claim Cost PMPM
	Util/1000	Unit Cost	PMPM	Util/1000	Unit Cost	PMPM	Util/1000	Unit Cost	PMPM	New Technology	Network Access	
Inpatient	123.79	\$ 3,234.46	\$ 33.37	-2.8%	9.5%	6.5%	115.05	\$ 4,104.53	\$ 39.35	\$ 4.81	\$ -	\$ 44.16
Outpatient	645.56	\$ 351.22	\$ 18.89	1.3%	5.3%	6.6%	666.95	\$ 401.71	\$ 22.33	\$ -	\$ -	\$ 22.33
Physician	4,467.11	\$ 109.10	\$ 40.61	1.3%	2.5%	3.8%	4,615.18	\$ 116.41	\$ 44.77	\$ -	\$ -	\$ 44.77
Pharmacy	537.41	\$ 189.32	\$ 8.48	4.3%	11.8%	16.5%	599.45	\$ 253.43	\$ 12.66	\$ -	\$ -	\$ 12.66
DME	715.51	\$ 154.04	\$ 9.18	1.3%	5.0%	6.3%	739.23	\$ 175.09	\$ 10.79	\$ -	\$ -	\$ 10.79
Non-Physician Professional	1,168.46	\$ 78.26	\$ 7.62	0.2%	4.5%	4.8%	1,176.15	\$ 87.84	\$ 8.61	\$ -	\$ -	\$ 8.61
Lab/Radiology	532.41	\$ 36.64	\$ 1.63	1.3%	1.5%	2.8%	550.06	\$ 38.11	\$ 1.75	\$ -	\$ -	\$ 1.75
Dental	68.78	\$ 81.93	\$ 0.47	2.3%	2.5%	4.8%	72.91	\$ 87.42	\$ 0.53	\$ -	\$ -	\$ 0.53
Other	746.03	\$ 101.10	\$ 6.29	2.3%	2.5%	4.8%	790.90	\$ 107.87	\$ 7.11	\$ -	\$ -	\$ 7.11
Non-Encounterable Expenses			\$ 1.32			3.0%			\$ 1.43	\$ -	\$ -	\$ 1.43
Total			\$ 127.86	1.3%	4.7%	6.1%			\$ 149.32	\$ 4.81	\$ -	\$ 154.13

Administration 9.9%	\$ 17.47
Underwriting Profit / Risk / Contingency 2.5%	<u>\$ 4.40</u>
Contractor Capitation Rate	\$ 176.01
CRS Administration	<u>\$ 16.69</u>
Fully Loaded Capitation Rate	\$ 192.70

1 - Annual trend factors are applied for 31.5 months.

2 - Stub period is from July 1, 2008 to September 30, 2008.

Phoenix - All Risk Levels

SFY05 & SFY06 Member Months: **238,188**

	Base Data - SFY05 & SFY06 Encounters			Annual Trend ¹			Trended Stub Period Encounters ²			Service Delivery		
Category of Service	Util/1000	Unit Cost	PMPM	Util/1000	Unit Cost	PMPM	Util/1000	Unit Cost	PMPM	New Technology	Network Access	Claim Cost PMPM
Inpatient	441.21	\$ 2,802.19	\$ 103.03	-2.8%	9.5%	6.5%	410.07	\$ 3,555.98	\$ 121.52	\$ 2.20	\$ -	\$ 123.71
Outpatient	829.08	\$ 400.03	\$ 27.64	1.3%	5.3%	6.6%	856.56	\$ 457.54	\$ 32.66	\$ -	\$ -	\$ 32.66
Physician	8,568.31	\$ 96.50	\$ 68.90	1.3%	2.5%	3.8%	8,852.32	\$ 102.96	\$ 75.95	\$ -	\$ -	\$ 75.95
Pharmacy	1,705.73	\$ 268.21	\$ 38.12	4.3%	11.8%	16.5%	1,902.65	\$ 359.02	\$ 56.92	\$ 0.83	\$ -	\$ 57.75
DME	1,028.85	\$ 152.08	\$ 13.04	1.3%	5.0%	6.3%	1,062.95	\$ 172.86	\$ 15.31	\$ -	\$ -	\$ 15.31
Non-Physician Professional	1,304.30	\$ 87.42	\$ 9.50	0.2%	4.5%	4.8%	1,312.88	\$ 98.13	\$ 10.74	\$ -	\$ -	\$ 10.74
Lab/Radiology	667.99	\$ 38.72	\$ 2.16	1.3%	1.5%	2.8%	690.13	\$ 40.26	\$ 2.32	\$ -	\$ -	\$ 2.32
Dental	230.45	\$ 73.78	\$ 1.42	2.3%	2.5%	4.8%	244.31	\$ 78.72	\$ 1.60	\$ -	\$ -	\$ 1.60
Other	1,592.31	\$ 43.05	\$ 5.71	2.3%	2.5%	4.8%	1,688.09	\$ 45.93	\$ 6.46	\$ -	\$ -	\$ 6.46
Non-Encounterable Expenses			\$ 2.82			3.0%			\$ 3.05	\$ -	\$ -	\$ 3.05
Total			\$ 272.34	1.5%	5.6%	7.2%			\$ 326.53	\$ 3.02	\$ -	\$ 329.55

Administration 10.3%	\$ 38.81
Underwriting Profit / Risk / Contingency 2.5%	\$ 9.45
Contractor Capitation Rate	\$ 377.80
CRS Administration	\$ 35.64
Fully Loaded Capitation Rate	\$ 413.44

1 - Annual trend factors are applied for 31.5 months.

2 - Stub period is from July 1, 2008 to September 30, 2008.

3 - Composite rates are weighted on the State's projected enrollment for SFY08.

Tucson - High

SFY05 & SFY06 Member Months: **28,888**

Category of Service	Base Data - SFY05 & SFY06 Encounters			Annual Trend ¹			Trended Stub Period Encounters ²			Service Delivery		Claim Cost PMPM
	Util/1000	Unit Cost	PMPM	Util/1000	Unit Cost	PMPM	Util/1000	Unit Cost	PMPM	New Technology	Network Access	
Inpatient	479.43	\$ 1,485.70	\$ 59.36	-2.8%	9.5%	6.5%	445.59	\$ 1,885.35	\$ 70.01	\$ -	\$ -	\$ 70.01
Outpatient	397.74	\$ 596.78	\$ 19.78	1.3%	5.3%	6.6%	410.93	\$ 682.57	\$ 23.37	\$ -	\$ -	\$ 23.37
Physician	14,524.62	\$ 67.33	\$ 81.50	1.3%	2.5%	3.8%	15,006.06	\$ 71.84	\$ 89.83	\$ -	\$ 2.29	\$ 92.12
Pharmacy	5,563.41	\$ 135.03	\$ 62.60	4.3%	11.8%	16.5%	6,205.70	\$ 180.75	\$ 93.47	\$ 2.59	\$ -	\$ 96.06
DME	2,455.09	\$ 161.06	\$ 32.95	1.3%	5.0%	6.3%	2,536.47	\$ 183.07	\$ 38.70	\$ -	\$ -	\$ 38.70
Non-Physician Professional	11,800.67	\$ 47.21	\$ 46.43	0.2%	4.5%	4.8%	11,878.27	\$ 52.99	\$ 52.46	\$ -	\$ 1.62	\$ 54.08
Lab/Radiology	42.05	\$ 90.22	\$ 0.32	1.3%	1.5%	2.8%	43.45	\$ 93.81	\$ 0.34	\$ -	\$ -	\$ 0.34
Dental	34.80	\$ 122.49	\$ 0.36	2.3%	2.5%	4.8%	36.89	\$ 130.70	\$ 0.40	\$ -	\$ -	\$ 0.40
Other	770.94	\$ 12.15	\$ 0.78	2.3%	2.5%	4.8%	817.31	\$ 12.97	\$ 0.88	\$ -	\$ -	\$ 0.88
Non-Encounterable Expenses			\$ 7.63			3.0%			\$ 8.24	\$ -	\$ -	\$ 8.24
Total			\$ 311.69	1.4%	6.1%	7.6%			\$ 377.71	\$ 2.59	\$ 3.91	\$ 384.20

Administration 23.3%	\$ 120.87
Underwriting Profit / Risk / Contingency 2.5%	\$ 12.95
Contractor Capitation Rate	\$ 518.03
CRS Administration	\$ 48.73
Fully Loaded Capitation Rate	\$ 566.75

1 - Annual trend factors are applied for 31.5 months.

2 - Stub period is from July 1, 2008 to September 30, 2008.

Tucson - Medium

SFY05 & SFY06 Member Months: **40,926**

	Base Data - SFY05 & SFY06 Encounters			Annual Trend ¹			Trended Stub Period Encounters ²			Service Delivery		
Category of Service	Util/1000	Unit Cost	PMPM	Util/1000	Unit Cost	PMPM	Util/1000	Unit Cost	PMPM	New Technology	Network Access	Claim Cost PMPM
Inpatient	295.61	\$ 2,662.63	\$ 65.59	-2.8%	9.5%	6.5%	274.75	\$ 3,378.88	\$ 77.36	\$ 6.70	\$ -	\$ 84.06
Outpatient	242.99	\$ 948.91	\$ 19.21	1.3%	5.3%	6.6%	251.04	\$ 1,085.31	\$ 22.71	\$ -	\$ -	\$ 22.71
Physician	8,432.96	\$ 106.89	\$ 75.12	1.3%	2.5%	3.8%	8,712.49	\$ 114.05	\$ 82.81	\$ -	\$ 2.29	\$ 85.09
Pharmacy	770.23	\$ 64.60	\$ 4.15	4.3%	11.8%	16.5%	859.15	\$ 86.47	\$ 6.19	\$ -	\$ -	\$ 6.19
DME	411.45	\$ 177.12	\$ 6.07	1.3%	5.0%	6.3%	425.09	\$ 201.32	\$ 7.13	\$ -	\$ -	\$ 7.13
Non-Physician Professional	2,528.73	\$ 48.65	\$ 10.25	0.2%	4.5%	4.8%	2,545.36	\$ 54.61	\$ 11.58	\$ -	\$ 1.62	\$ 13.20
Lab/Radiology	69.50	\$ 129.14	\$ 0.75	1.3%	1.5%	2.8%	71.81	\$ 134.29	\$ 0.80	\$ -	\$ -	\$ 0.80
Dental	849.66	\$ 76.43	\$ 5.41	2.3%	2.5%	4.8%	900.77	\$ 81.55	\$ 6.12	\$ -	\$ -	\$ 6.12
Other	321.27	\$ 29.73	\$ 0.80	2.3%	2.5%	4.8%	340.60	\$ 31.72	\$ 0.90	\$ -	\$ -	\$ 0.90
Non-Encounterable Expenses			\$ 4.70			3.0%			\$ 5.08	\$ -	\$ -	\$ 5.08
Total			\$ 192.05	1.2%	4.1%	5.4%			\$ 220.68	\$ 6.70	\$ 3.91	\$ 231.29

Administration 23.2%	\$ 72.35
Underwriting Profit / Risk / Contingency 2.5%	\$ 7.79
Contractor Capitation Rate	\$ 311.43
CRS Administration	\$ 29.58
Fully Loaded Capitation Rate	\$ 341.01

1 - Annual trend factors are applied for 31.5 months.

2 - Stub period is from July 1, 2008 to September 30, 2008.

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August 20, 2008

Ms. Joan Agostinelli
Office Chief
Arizona Department of Health Services
Office for Children with Special Health Care Needs
Children's Rehabilitative Services
150 N. 18th Avenue, Suite #330
Phoenix, AZ 85007-3243

Final and Confidential

Subject: Title XIX, Title XXI and Proposition 204 Capitation Rates for Contract Year 2009

Dear Ms. Agostinelli:

The Arizona Department of Health Services (ADHS), Office for Children with Special Health Care Needs (OCSHCN), Children's Rehabilitative Services (CRS) program contracted with Mercer Government Human Services Consulting (Mercer) to develop capitation rates for the Title XIX, Title XXI and Proposition 204 populations. These rates are used by the Arizona Health Care Cost Containment System (AHCCCS) to compensate CRS and the CRS contractor for CRS members determined Title XIX, Title XXI or Proposition 204 eligible during the Contract Year. For the Contract Year beginning October 1, 2008, and ending September 30, 2009 (CYE 2009), Mercer has developed capitation rates following the process described in this letter.

Background

CRS is primarily a children's program for Arizona residents under the age of twenty-one with chronic and disabling, or potentially disabling, conditions. The program provides services through one statewide contractor. Medical services not related to a child's CRS-eligible condition are provided through the child's AHCCCS health plan.

Three capitation rates are developed for compensating the CRS contractor based upon a member's CRS enrollment diagnosis. The three rates represent compensation for providing services to members with specific diagnoses that have historically represented relatively High, Medium and Low costs to the CRS contractor. The High, Medium and Low capitation risk group structure includes small numbers of the Qualified Medicare Beneficiary (QMB) Plus, Medicaid [non-QMB and non-Specified Low-income Medicare Beneficiary (SLMB)],

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Arizona Department of Health Services

and SLMB Plus dual eligible populations. No other dual eligible populations are enrolled in the program. In Mercer's opinion, the High, Medium and Low capitation rate cells most appropriately match payment with risk in the CRS program, and hence provide a greater level of actuarial soundness than other approaches. The three-tier rate structure will continue to be used for CYE 2009.

CYE 2009 Capitation Rate Development Methodology – Overview

CYE 2009 marks the fourth year that contractor encounters have been used as the base data source. The CYE 2009 rates have been re-based.

Base Data

The SFY 2006 and SFY 2007 contractor encounter data were valued using a combination of contractor paid amounts and Medicaid (AHCCCS) fee schedule allowed amounts, incorporating a methodology in conjunction with Third Party Liability (TPL) cost avoidance and any pay-and-chase recoveries. SFY 2006 encounters were trended forward to a "modeled SFY 2007" level, and blended with the actual SFY 2007 encounters to further enhance the credibility of the base data.

With three years of encounter data, SFY 2005 through SFY 2007, CRS Administration and Mercer performed a thorough analysis and re-established High, Medium and Low diagnostic groupings. Per member per month (PMPM) costs were regrouped into the three categories and the base SFY 2006 and SFY 2007 data were adjusted accordingly, increasing the matching of payment to underlying risk. The adjustments were done on a budget-neutral basis, meaning no dollars were gained or lost in the process.

The CRS program falls under Arizona's 1115 waiver. Mercer performed a review of the CRS subcontractor submitted data and determined that the data included a small amount of non-covered services which have been excluded from the base data.

Base Data Adjustments

1. Unpaid Claims Liability

The SFY 2006 and SFY 2007 base data utilizes encounters with dates of service beginning July 1, 2005, and ending June 30, 2007. Encounters were initially analyzed with a run-out period of seven months beyond the June 30, 2007, endpoint, with data extracted in early

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February 2008. The next step in the base data analysis process was a review of the CRS contractors' expense component for claims incurred but unpaid, hereinafter called the unpaid claims liability (UCL). The UCL is the sum of claims incurred but not reported, plus those claims reported but not yet paid. Statutory accounting recognizes an incurred medical expense for the period as the result of the sum of claims paid in the period, plus the change in the accrued liability for the UCL between the beginning and the end of the period. This calculation pushes the correction of the estimation error of the beginning UCL into the expense recognized in the current period. However, the expense that should be recognized in base data development is calculated from claims incurred in the SFY 2006 and SFY 2007 experience period, both claims paid in SFY 2006 and SFY 2007 and the accrued liability for the UCL as of the end of SFY 2007.

A review of the contractors' SFY 2007 encounters indicated that there were outstanding claims as of the early February 2008 data extract. The overall adjustment for SFY 2006 and SFY 2007 encounters received beyond the early February 2008 data extract was 0.83 percent.

2. Completion for "Omissions"

As part of its 1115 waiver provisions, AHCCCS performs annual data validation studies of encounters. AHCCCS tests for completeness, accuracy and timeliness of encounter submissions based upon statistically valid sampling of both professional and facility encounters, comparing them against medical records. Mercer utilized the results of the most recently completed data validation study to develop factors to apply to the base CRS data to further complete the encounters for these "omissions." Mercer and CRS Administration utilized (with some downward adjustment which lowered the overall impact) the factors shown by AHCCCS, which vary between facility and professional consolidated categories of service (COS). The overall rate impact of this correcting adjustment is 3.09 percent.

3. "Non-encounterable" Costs

In addition, the adjusted base SFY 2006 and SFY 2007 data reflects contractor costs not captured by encounters, but typically considered under medical service expenses rather than administrative expenses. These "non-encounterable" costs include those for such providers as social workers and interpreters, as well as telephone and tele-video interventions, counseling, care coordination activities and member/family education. The overall non-encounterable adjustment is 1.07 percent of the base SFY 2006 and SFY 2007 encounters.

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4. Medicare Part D

Under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (MMA), a prescription drug benefit is provided by Medicare for the Medicare/Medicaid dual eligible population, effective January 1, 2006. Under this program, prescription drug expenditures for dual eligibles by a state Medicaid program will be significantly reduced. To account for this change, Mercer excluded all pharmacy costs for dual eligibles from the base data.

5. AHCCCS Inpatient Outlier Methodology Change

Starting on October 1, 2007, AHCCCS began a three-year phase-in of a new inpatient outlier methodology (specific to the cost-to-charge ratios used to qualify and pay outliers). CYE 2009 marks Year 2 of the phase-in, so the outliers in the base SFY 2006 and SFY 2007 encounters were re-priced using the new methodology. This change reduced the two-year base data by approximately \$3 million.

Trend to CYE 2009

The SFY 2006 trended (modeled SFY 2007) and SFY 2007 encounter cost data were trended forward twenty-seven months to CYE 2009. The trend factors recognize changes in cost-per-service unit and utilization of health care services from the SFY 2006 and SFY 2007 base period to CYE 2009. Unique trends were applied separately for ten COS. Trends ranged from a low of 2.3 percent for Non-Physician Professional (-3.25 percent utilization and 5.75 percent unit cost; $0.9675 \times 1.0575 = 1.023$) to a high of 17.5 percent for Pharmacy (-0.25 percent utilization and 17.75 percent unit cost; $0.9975 \times 1.1775 = 1.175$). The weighted annual trend adjustment for SFY 2006 and SFY 2007 to CYE 2009 was 9.1 percent (3.1 percent utilization and 5.8 percent unit cost).

Mercer relied heavily on historical CRS encounter information as well as its professional experience in working with other state Medicaid programs, outlooks in the commercial marketplace that influence Medicaid programs, regional and national economic indicators, and general price/wage inflation in developing trends. The 9.1 percent weighted trend compares favorably (is lower than) historical experience trend.

Mercer actuaries select COS trend factors from a range of possible values. The final trend figures selected account for the recent Budget Reconciliation Bills (BRB) mandating a one-year freeze to AHCCCS hospital inpatient and outpatient fee schedules. Mercer believes the final trend factors selected to be reasonable and appropriate. The impact of the one-year

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freeze on the medical component of the CRS weighted average capitation rate is estimated at negative 1.0 percent.

Service Utilization Increase and Technology Changes from Base Data to CYE 2009

Service utilization increases and technology changes not reflected (or not fully reflected) within the SFY 2006 and SFY 2007 base data will impact the CRS contractor for CYE 2009. Adjustments for CYE 2009 were made for the following items through analyzing data from CRS, the AHCCCS contractors and external sources.

1. Biotech Drugs

Effective CYE 2009, the coverage of the high-cost drugs Aldurazyme, Cerezyme, Elaprase, Fabrazyme and Myozyme will be transferred from AHCCCS to CRS. In addition, Orfadin, another biotech drug, is expected to further increase contractor expenditures beyond normal pharmacy trend. The total impact of these changes is approximately 2.1 percent of the final medical costs.

2. Kuvan

Kuvan, a new drug for the treatment of Phenylketonuria (PKU), was approved by the FDA in late 2007. Kuvan is estimated to have a 0.7 percent impact on the final medical costs.

3. Cochlear Implants

Effective CYE 2009, the coverage of cochlear implants and related services will be transferred from AHCCCS to CRS. The total impact of this change is \$1.65 million over the two-year base period.

4. Motorized Wheelchairs

Effective CYE 2009, the coverage of motorized wheelchairs related to CRS eligible conditions will be transferred from AHCCCS to CRS. The total impact of this change is \$241,000 over the two-year base period.

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5. CRS Related Conditions

Effective CYE 2009, the coverage of conditions related to or caused by CRS conditions (e.g., diabetes caused by cystic fibrosis and failure to thrive caused by Cerebral Palsy) will be transferred from AHCCCS to CRS. The total impact of this change is \$102,000 over the two-year base period.

6. Therapies

Effective CYE 2009, the CRS limit of twenty-four therapy sessions will be lifted. The total impact of lifting the limit is \$5,000 over the two-year base period.

7. Emergency Services

The new CRS contractor will have a significantly expanded hospital network as compared to the previous contractors. As a result of this, the Contractor will be financially responsible for coverage of the related emergency services in those facilities effective CYE 2009, previously covered by AHCCCS non-CRS Contractors. The total impact of this change is \$1.23 million over the two-year base period.

Loading for Contractor Administration and Underwriting Profit/Risk/Contingency

The overall CYE 2009 administrative expense load is 10.2 percent. This is down significantly from the comparable SFY 2008 figure of 14.8 percent due to moving from four regional contractors to one statewide contractor and going through a competitive bid process, including the administrative expense component of the capitation rate.

An underwriting profit/risk/contingency loading of 2.0 percent was applied uniformly to all rates. There should be an assumed margin for contribution to entity surplus and adverse claim risk contingency. The 2.0 percent is consistent with that used for the AHCCCS acute care contractors.

CRS Administration

AHCCCS has placed CRS Administration at risk for the provision of CRS-covered services for CYE 2009. Accordingly, the capitation rates were developed to include compensation to CRS for the cost of ensuring the delivery of all CRS covered services. The capitation rates paid to CRS include an 8.4 percent administrative load. This is down from the 9.8 percent load for SFY 2008. The administrative load represents the CRS costs of ensuring the

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efficient delivery of services in a managed care environment, and is based upon historical CRS costs and accounts for continued regulatory oversight cost expectations for CYE 2009.

Reinsurance Offset

CRS Administration has negotiated a reinsurance arrangement with AHCCCS for CYE 2009. The arrangement covers inpatient claims exceeding \$75,000 at 75 percent reimbursement. It also covers the high-cost biotech drugs Aldurazyme, Cerezyme, Elaprase, Fabrazyme, Kuvan, Myozyme and Orfadin at 85 percent reimbursement. Mercer estimated the value of the reinsurance through analyzing data from CRS, the AHCCCS contractors and external sources. Reimbursement amounts were estimated for the High, Medium and Low risk groups for SFY 2006 and SFY 2007 and each was trended forward to the CYE 2009 time period. These totals were then blended using a one-third weight on projected SFY 2006 and two-thirds weight on projected SFY 2007.

Certification of Rates

Mercer certifies that the Title XIX, Title XXI and Proposition 204 CRS capitation rates for CYE 2009 presented below and in the attachments to this letter, were developed in accordance with generally accepted actuarial practices and principles by actuaries meeting the qualification standards of the American Academy of Actuaries for the populations and services covered under the managed care contract. Rates developed by Mercer are actuarial projections of future contingent events. Actual contractor costs will differ from these projections. Mercer has developed these rates on behalf of CRS to demonstrate compliance with the Centers for Medicare and Medicaid Services (CMS) requirements under 42 CFR 438.6(c) and are in accordance with applicable laws and regulations.

Risk Category

	High	Medium	Low
Statewide Rates	\$1,342.38	\$502.82	\$222.99
AHCCCS Reinsurance	\$291.22	\$29.92	\$3.02
Net Rates After Reinsurance	\$1,051.16	\$472.90	\$219.97

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Ms. Joan Agostinelli
Arizona Department of Health Services

If you have any questions or would like to discuss this information further, please call me at 602 522 6510.

Sincerely,

A handwritten signature in cursive script that reads "Michael E. Nordstrom" followed by "ASA, MAAA" in a slightly different, more formal script.

Michael E. Nordstrom, ASA, MAAA

MEN/AC/lgm

Copy:
Cynthia Layne, ADHS
David Reese, ADHS
Branch McNeal, Mercer
Gerry Smedinghoff, Mercer
Adam Carney, Mercer
Austin Hackett, Mercer

Attachments

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DATE: September 25, 2008

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Amy Upston, Senior Fiscal Analyst

SUBJECT: AHCCCS – Review of Proposed Acute Care and ALTCS Capitation Rate Changes --
Agency Request (Information Only)

Request

Pursuant to a footnote in the General Appropriation Act, the Arizona Health Care Cost Containment System (AHCCCS) is required to report capitation and fee-for-service inflationary rate changes with a budgetary impact to the Committee for review prior to implementation.

Recommendation

The Chairman has scheduled this item for information only and does not plan to take a vote at this meeting. The Chairman is seeking further information on the Governor's plans to resolve the FY 2009 budget shortfall and whether the funding associated with this particular agenda item could be part of the solution.

At the time the vote is taken, the Committee has at least the following 2 options.

1. A favorable review of the proposed changes as the proposed rates are a combination of actuarial inflation adjustments and legislatively authorized policy changes.
2. An unfavorable review of the proposed changes as the proposed increases are higher than budgeted.

The proposed rates would cost \$34.4 million more from the General Fund than budgeted in FY 2009, assuming budgeted caseloads. The \$34.4 million unbudgeted cost represents a shortfall of \$27.6 million in Acute Care and a \$6.8 million shortfall in the Long-Term Care program.

Analysis

Acute Care

This population represents members who participate in the Traditional Medicaid, Proposition 204, and KidsCare and KidsCare Parents programs.

(Continued)

In FY 2009, the approved Acute Care budget estimated capitation rate growth at 6.0%. AHCCCS states that the increase in the contract year ending (CYE) in 2009 will be higher at 8.7%. Based on enrollment projections used in developing the FY 2009 appropriation, this would cost \$27.6 million more than budgeted from the General Fund (\$68.3 million in Total Funds). *Table 1*, at the end of this memo, shows the proposed capitation rates for each patient group.

Relative to the enacted budget, the \$27.6 million in proposed changes include an additional increase of \$18.6 million for trends in service utilization and medical inflation, a \$15 million increase in reinsurance, and \$(6) million in greater than expected savings from policy changes. For CYE 2009, AHCCCS reports anticipated increases across all populations with the exception of those eligible for both SSI and Medicare.

AHCCCS estimates that changes in the reinsurance policy will have a first-year impact on their budget of \$15 million. Reinsurance represents payments made to health plans for patients with unusually high costs. After a certain deductible has been met, AHCCCS will pay 75%-85% of the cost of service until it reaches \$650,000. After this level, AHCCCS will pay 100% of the cost.

For CYE 2009, one of the largest health plans has elected to increase their deductible from \$20,000 to \$35,000. There is a relationship between capitation rates and deductibles. When health plans are willing to take on higher deductibles, they are compensated with higher capitation rates.

The higher capitation rates and lower reinsurance costs should be cost neutral overall, but some of the reinsurance savings will not be realized until FY 2010 or FY 2011 due to the lag in encounter submissions from the health plans. AHCCCS estimates that this change will result in a net General Fund cost of \$15.0 million in FY 2009, and a savings of \$(14.8) million in FY 2010 and \$(0.2) million in FY 2011.

Policy Changes

A.R.S. § 36-2901.06 limits capitation rate adjustments to utilization and inflation unless those changes are approved by the Legislature or are specifically required by federal law or court mandate. In addition to standard adjustments for utilization and medical inflation trends, the following program changes have been incorporated into the capitation rates:

- **Hospice Services** – Legislation passed in 2007 allowed AHCCCS to cover hospice services for Acute Care members. AHCCCS estimates the cost of providing hospice services is \$1,023,600 from the General Fund (\$3,000,000 in Total Funds) on a full-year basis. The FY 2009 budget did not include additional costs for hospice services, and it does not appear that AHCCCS offset this cost by taking savings elsewhere.
- **HPV Vaccine** – Federal law requires that AHCCCS cover the cost of the human papillomavirus (HPV) vaccine for female AHCCCS members under age 21 who elect to receive the vaccine. The cost for providing the vaccine to AHCCCS members under age 19 is paid by the Department of Health Services. AHCCCS includes \$324,100 from the General Fund to provide the vaccine to newly enrolled female AHCCCS members ages 21-26. The FY 2009 budget had included \$183,800 from the General Fund for this purpose.
- **Outlier Methodology Revision** – The FY 2008 budget directed AHCCCS to revise the methodology used to pay hospital claims with significantly high operating costs known as “outliers.” These claims are paid by applying a cost-to-charge ratio that is used to approximate the hospital’s actual cost of providing the services. FY 2009 begins the second year of a 3-year phase in for the revised methodology. This revision led to an AHCCCS-estimated General Fund savings of \$(12,264,400) in FY 2009. The FY 2009 budget had assumed savings of \$(5.7) million for this revision.
- **Hospital Reimbursement Rates** – The Health and Welfare Budget Reconciliation Bill prohibited increases in specific hospital reimbursement rates for FY 2009. This policy leads to an AHCCCS-

(Continued)

estimated General Fund savings of \$(11,259,600). The FY 2009 budget had assumed savings of \$(11.8) million for this purpose.

- Children's Rehabilitative Services – AHCCCS is shifting the responsibility for payment of specific services to the Children's Rehabilitative Services (CRS) contractor when those services are directly related to a member's CRS condition. This will result in a General Fund savings of approximately \$(341,200) in the AHCCCS capitation rates. This should have a corresponding increase of the same amount in the CRS capitation rates, but CRS has incorporated \$412,200 into their budget for providing these services. The FY 2009 budget did not include this savings.

Long-Term Care (ALTCS)

ALTCS services are provided to the elderly and physically disabled in need of long-term care either in nursing care facilities or in home and community-based settings.

The approved FY 2009 budget provided for a (2.2)% capitation rate decrease. Based on enrollment projections used in developing the FY 2009 appropriation, this proposed increase would cost \$6.8 million more than budgeted from the General Fund and \$5.3 million more from counties (\$35.5 million in Total Funds).

Policy Changes

The primary policy changes in ALTCS capitation rates result from providing preventive adult dental services and hospital reimbursement rates.

- Non-Emergency Dental Services – Legislation signed into law in 2007 required AHCCCS to provide non-emergency (basic and preventive) dental services for ALTCS adults up to \$1,000 annually. The FY 2009 budget did not renew this provision, thus providing an AHCCCS-estimated General Fund savings of approximately \$(1,463,700). The budget had assumed savings of \$(1.7) million for adult dental services.
- Hospital Reimbursement Rates – The Health and Welfare Budget Reconciliation Bill prohibited increases in specific hospital reimbursement rates for FY 2009. This policy leads to an AHCCCS-estimated General Fund savings of \$(1,023,600). The FY 2009 budget had assumed savings of \$(700,100) for this purpose.

The capitation rate change also includes small adjustments for the outlier methodology revision and shifting services to CRS.

Table 1				
Monthly Regular Capitation Rates				
<u>Populations</u>	<u>Current CYE 08 Rate</u>	<u>Budgeted CYE 09 Rate</u>	<u>Proposed CYE 09 Rate</u>	<u>CYE 08-CYE 09 % Change</u>
<u>Traditional Medicaid/KidsCare</u>				
Age<1	\$ 525.88	\$ 564.90	\$ 534.00	1.5%
Age 1 – 13	109.66	115.52	110.07	0.4
Age 14 - 44 (Female only)	218.18	229.05	244.07	11.9
Age 14 - 44 (Male only)	144.89	152.90	149.94	3.5
Age 45+	387.95	407.77	407.54	5.0
SSI with Medicare	161.35	170.44	156.71	(2.9)
SSI without Medicare	698.12	735.23	733.28	5.0
Family Planning	18.38	19.48	19.03	3.5
Deliveries	6,583.36	6,978.36	6,635.02	0.8
<u>Title XIX Waiver Group</u>				
Prop 204 – Conversions	\$ 503.67	518.78	618.41	22.8%
Prop 204 - Medically Eligible	1,194.14	1,178.43	2526.15	111.5
Prop 204 - Newly Eligible	499.69	518.78	618.41	23.8
Hospital “Kick” Payment	10,858.49	11,510.00	0.00	(100.0)
Acute Care Weighted Average				8.7%
<u>ALTCS</u>				
Statewide Average Rate	\$3,206.95	\$3,137.41	\$3,288.72	2.5%

RS/AU:ss



AHCCCS

Janet Napolitano, Governor
Anthony D. Rodgers, Director

Our first care is your health care

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

September 11, 2008

The Honorable Robert Burns, Chairman
Joint Legislative Budget Committee
1700 West Washington
Phoenix, Arizona 85007



Dear Senator Burns:

The Arizona Health Care Cost Containment System (AHCCCS) respectfully requests to be placed on the agenda of the next Joint Legislative Budget Committee (JLBC) meeting to review the following items.

- Long Term Care Capitation Rates for Contract Year Ending 2009
- Acute Care Capitation Rates for Contract Year Ending 2009

As required by the Federal Balanced Budget Act of 1997, Title XIX and Title XXI Managed Care Programs must have actuarially sound capitation rates. The following proposed rate adjustments are in the process of being reviewed by the Centers for Medicare and Medicaid Services (CMS) for an October 1, 2008 implementation.

Long Term Care Capitation Rates

For State Fiscal Year 2009 AHCCCS was appropriated an increase of 6.0% for ALTCS rates. In March 2008 AHCCCS estimated that the ALTCS increase would be in the range of 4.0-6.0%. The proposed rates for the new contract cycle came in below these estimates increasing at a rate of 2.5%.

There are two main factors that impacted the rates and resulted in an actual increase less than the estimate. The program continues to see a favorable mix change as a larger percentage of members moved into Home and Community Based Settings (HCBS). Since 1999 the ALTCS program has seen a shift from 43% of the population in HCBS to the projection for Contract Year Ending (CYE) 2009 of 65.3%. The second factor impacting the rate of increase was a 10.2% decrease that was applied to the acute care component of the rate reflecting a decreased trend and the implementation of several legislatively approved policy issues including elimination of dental benefits, outlier changes and the mandated hospital rate freeze.

These rate adjustments reflect the Elderly and Physically Disabled population and do not include the Developmentally Disabled population, which is administered through the Arizona Department of Economic Security. The actuarial memo that has been submitted to CMS for approval is attached for additional information.

As detailed in the attached graph the five year average for ALTCS EPD rates is 5.9%.

Senator Burns
September 12, 2008
Page 2

Acute Care Capitation Rates

The State Fiscal Year 2009 budget assumed a 6.0% overall increase in Acute Care capitation rates. As was indicated in the letter submitted to JLBC on March 1, 2008, the AHCCCS program had to competitively bid the Managed Care Organization (MCO) network for the program this past year. In a letter dated May 30, 2008, AHCCCS provided an update to the JLBC estimating that Acute care capitation rates were expected to increase an average of 8.2% but that the final number would be subject to "further legislative adjustments and final health plan reinsurance level adjustments".

The overall weighted increase for CYE 2009 Acute Care capitation rates is 8.69%. Two significant adjustments occurred since the May 30, 2008 update. The rates were decreased 109 basis points to account for legislative changes with the majority of the decrease resulting from the mandated hospital rate freeze. This decrease was offset by a 156 basis point increase to account for the selected reinsurance levels chosen by the awarded MCO's. For the past ten years AHCCCS has provided the MCOs with the ability to select reinsurance levels of \$20,000, \$35,000 and \$50,000. Based on the reinsurance levels selected an estimated 38% of the CYE 2009 population will be at the \$20,000 level while in CYE 2008, 74% of the population was at the \$20,000 reinsurance level.

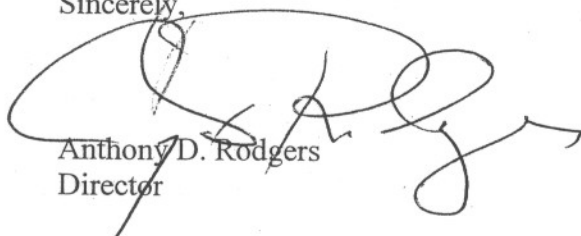
As detailed in the attached graph, the 5 year Acute Care annual average capitation rate has increased by 6.7%.

Policy Changes

Per the legislative mandate in ARS 36-2901.06 and 36-2941 AHCCCS has not included any changes beyond the limits that are now delineated in law.

Should you have any questions on any of these issues please feel free to contact Tom Betlach at (602) 417-4483.

Sincerely,

A handwritten signature in black ink, appearing to read "Anthony D. Rodgers", is written over a large, loopy circular flourish.

Anthony D. Rodgers
Director

c: Jim Apperson, OSPB
Richard Stavneak, JLBC

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DATE: September 25, 2008

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Leah Kritzer, Fiscal Analyst

SUBJECT: Arizona Board of Regents – Review of FY 2009 Tuition Revenues -- Agency Request
(Information Only)

Request

The Arizona Board of Regents (ABOR) requests Committee review of its expenditure plan for tuition revenue amounts greater than the amounts appropriated by the Legislature and all retained tuition and fee revenue expenditures for the current fiscal year.

Recommendation

The Chairman has scheduled this item for information only and does not plan to take a vote at this meeting. The Chairman is seeking further information on the Governor's plans to resolve the FY 2009 budget shortfall and whether the funding associated with this particular agenda item could be part of the solution.

At the time the vote is taken, the Committee has at least the following 2 options.

1. A favorable review.
2. An unfavorable review. The additional tuition revenues may be needed to offset any university reductions to reduce the FY 2009 budget shortfall.

In total, appropriated FY 2009 tuition collections are estimated to be \$538.1 million. This amount is \$69.7 million above FY 2008 and \$56.7 million above the original FY 2009 budget. The universities plan on using the additional \$56.7 million in their operating budgets to cover inflationary increases and miscellaneous academic and support planning priorities.

(Continued)

Non-appropriated, locally retained tuition and fees for FY 2009 are estimated at \$391.4 million, \$32.0 million higher than FY 2008. Of the \$391.4 million, \$251.3 million, or 64%, is dedicated to scholarships, fellowships, and financial aid. Statute allows the universities to retain a portion of tuition collections for expenditures, as approved by ABOR. These “locally” retained tuition monies are considered non-appropriated. Any remaining tuition collections are then submitted as part of each university’s operating budget request and are available for appropriation by the Legislature.

Analysis

Appropriated Tuition

Table 1 shows ABOR changes to resident and non-resident undergraduate tuition from FY 2008 to FY 2009. ABOR policy is to set undergraduate resident tuition at the top of the bottom one-third of all senior public universities.

Table 1 Arizona University System FY 2008 to FY 2009 Undergraduate Tuition and Fees Changes ^{1/}								
	Resident				Non-Resident			
	<u>FY 2008</u>	<u>FY 2009</u>	<u>\$ Change</u>	<u>% Change</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>\$ Change</u>	<u>% Change</u>
ASU-Main	\$4,969	\$5,313 ^{2/}	\$344	6.9%	\$17,001	\$17,947	\$946	5.6%
ASU-East/West	4,766	5,099 ^{2/}	333	7.0%	16,999	17,945	946	5.6%
NAU	4,841	5,217 ^{2/}	376	7.8%	14,495	15,546	1,051	7.3%
NAU-Distance Ed.	4,623	4,850	227	4.9%	7,008	7,493	485	6.9%
UofA-Main/HSC	5,037	5,531	494	9.8%	16,271	18,665	2,394	14.7%
UofA-South	4,461	4,804	343	7.7%	16,216	18,609	2,393	14.8%

^{1/} The amounts represent combined full-time tuition for fall and spring semesters, as well as mandatory fees. Undergraduates must take at least 12 credit hours to qualify for full-time status. Mandatory fees include AFAT and student recreation charges, but do not include special class or program fees.

^{2/} These amounts represent tuition and fees for continuing students enrolled prior to fall 2008. For students starting in the fall of 2008, the following tuition and fees will be charged: ASU Main Resident - \$5,659, ASU East & West Resident - \$5,659, NAU Flagstaff Resident - \$5,446, and NAU Flagstaff Non-Resident - \$16,544.

Table 2 displays FY 2008 and FY 2009 appropriations by fund for the Arizona University System. The FY 2009 budget includes \$481.4 million in tuition, which reflects tuition growth from new students, but not tuition rate increases. The higher tuition rates generated \$56.7 million more than budgeted, for a total of \$538.1 million.

Table 2 Arizona University System FY 2008 and FY 2009 Appropriations (in millions)			
	<u>FY 2008</u>	<u>FY 2009 Before</u>	<u>FY 2009 After</u>
		<u>Tuition Increase</u>	<u>Tuition Increase</u>
General Fund	\$1,121.1	\$1,080.4	\$1,080.4
Collections Fund	468.4	481.4	538.1
Total	\$1,589.5	\$1,561.8	\$1,618.5

Table 3 presents FY 2009 appropriations estimates of ABOR’s FY 2009 All Funds Operating Budget Report and resulting additional tuition revenues by campus. Of the \$56.7 million in additional tuition, ASU received \$29.0 million, U of A \$26.8 million, and NAU \$900,000. The \$900,000 additional tuition amount for NAU is substantially lower than expected, given the tuition rate increases shown for NAU in Table 1. While ABOR indicates that this may be due to differences in how NAU has projected its enrollment and overall collections for FY 2009, we have asked NAU for a more thorough explanation.

Table 3			
Arizona University System			
FY 2009 Appropriations and Additional Tuition Revenues by Campus			
Campus	FY 2009 Appropriation	FY 2009 All Funds Operating Budget	Additional Tuition
ASU-Main	\$236,073,700	\$260,679,000	\$24,605,300
ASU-East	25,151,200	27,120,200	1,969,000
ASU-West	25,092,500	27,573,200	2,480,700
NAU	51,739,600	52,620,500	880,900
UofA-Main	129,244,900	153,532,100	24,287,200
UofA-Health Sciences Center	14,063,000	16,543,500	2,480,500
Total	\$481,364,900	\$538,068,500	\$56,703,600

Table 4 provides some information on the uses of additional appropriated tuition revenues by university. Attached, ABOR has provided further detail.

Table 4		
Arizona University System		
Use of Additional Appropriated Tuition Revenues by Campus		
		\$ in Millions
ASU	Faculty Salary Progression and Promotion	\$ 1.1
	Faculty and Staff Salary Compression and Retention	1.0
	Enrollment Growth Allocations and Investments	8.3
	College/School Support from Special Program Fees	2.0
	Faculty and Staff Hiring to improve Student Retention	2.0
	Student Retention Tracking Systems Enhancements	0.1
	University Technology Enhancements	1.3
	Marketing and Communication Student Support	0.9
	Transfer Student Admissions Support	0.6
	Base Utilities Rate/Usage Increases	1.9
	Employee Related Expenses Rate and Premium Increase	3.1
	New Downtown Phoenix Campus Facilities Operations and Maintenance	1.5
	Operations and Maintenance of New Polytechnic Facilities	1.3
	University Technology Office Support from Incremental Fee	3.2
NAU	Environmental Health and Safety	0.5
	Public Safety	0.2
	Total	\$29.1
UofA	Employee Related Expenses	\$ 0.9
	Additional Outreach Programs	\$ 4.4
	Hiring, Retention, and Faculty Commitments	3.9
	General Education Support	3.9
	Support to Colleges from Differential Tuition Revenue	1.2
	22:1 Enrollment Growth Adjustments	0.6
	College of Medicine Phoenix Campus	0.7
	College of Medicine Tucson Campus	0.3
	Law College Faculty Commitment	0.2
	Honors College Instructional Support	0.2
	Telescope Directorate	0.7
	Campus Diversity Initiative and Advising	1.3
	Health Benefit Rate Increases	2.3
	Utility Rate Increases	2.2
UofA	Operation and Maintenance	1.8
	Vice President Health Affairs	1.0
	Enterprise System Replacement Project	1.0
	Banking Services	0.7
	Office of External Relations	0.3
	Total	\$26.7

(Continued)

Locally Retained Tuition and Fees Report

Systemwide, locally retained tuition and fees total \$391.4 million in FY 2009, which is an increase of \$32.0 million above FY 2008 budgeted amounts. *Table 5* shows that \$26.7 million of the increase is allocated to financial aid; \$4.0 million is allocated to the debt service payments, and \$2.0 million is allocated to Plant Fund expenditures. Funding was reduced for Designated Funds by \$(0.5) million and \$(0.2) million for Auxiliary Funds. Auxiliary Funds consist of monies collected from sales and services from substantially self-supporting activities such as residence halls, whereas Designated Funds consist of tuition and fees retained by the universities, summer session fees, administrative costs of student aid, and unrestricted gifts.

Table 5			
Arizona University System			
Locally Retained Tuition and Fees			
	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2009 Change</u>
Designated			
ASU-Main	\$11,604,300	\$12,959,700	\$1,355,400
ASU- East	1,382,900	1,394,700	11,800
ASU-West	189,000	189,000	-
NAU	3,286,900	4,963,500	1,676,600
UofA	<u>17,972,500</u>	<u>14,385,300</u>	<u>(3,587,200)</u>
Designated Subtotal	\$34,435,600	\$33,892,200	\$ (543,400)
Auxiliary			
ASU-Main	\$ 2,516,300	\$ 2,516,300	-
ASU- East	-	-	-
ASU-West	-	-	-
NAU	2,194,900	2,248,900	\$ 54,000
UofA	<u>7,129,000</u>	<u>6,909,600</u>	<u>(219,400)</u>
Auxiliary Subtotal	\$11,840,200	\$11,674,800	\$(165,400)
Financial Aid			
ASU-Main	\$ 98,250,700	\$102,699,600	\$ 4,448,900
ASU- East	4,443,100	6,371,500	1,928,400
ASU-West	8,430,500	14,704,300	6,273,800
NAU	28,934,900	30,711,800	1,776,900
UofA	<u>84,550,900</u>	<u>96,851,200</u>	<u>12,300,300</u>
Financial Aid Subtotal	\$224,610,100	\$251,338,400	\$26,728,300
Debt Service	\$ 73,968,000	\$ 77,989,400	\$ 4,021,400
Plant Fund	<u>14,459,800</u>	<u>16,459,800</u>	<u>2,000,000</u>
Total	<u>\$359,313,700</u>	<u>\$391,354,600</u>	<u>\$32,040,900</u>

RS/LK:ss



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Arizona State University

Northern Arizona University

University of Arizona

August 28, 2008

The Honorable Bob Burns, Chairman
Joint Legislative Budget Committee
Arizona State Senate
1700 West Washington
Phoenix, Arizona 85007



Dear Senator Burns:

A footnote included in the General Appropriations Act requires that the Arizona Board of Regents submit an expenditure plan to the Joint Legislative Budget Committee of any tuition revenue amounts which are different from the amounts appropriated by the legislature, and all tuition and fee revenues retained locally by the universities.

Enclosed for your information is a summary report of tuition revenues that support the FY 2009 state operating budget as reported to the Board at its August 2008 meeting, and university tuition and fees expenditure plans. The increase in tuition and fees revenues can be attributed to a combination of increased student enrollments from the estimates made last fall during the budget process, and tuition and fee rate increases approved by the Board of Regents.

If you have any questions, please do not hesitate to call me at 229-2505.

Sincerely,

Joel Sideman
Executive Director

xc: ✓ Richard Stavneak, Director, JLBC
James Apperson, Director, OSPB

Board Members: **President Fred T. Boice**, Tucson **Robert B. Bulla**, Scottsdale **Ernest Calderón**, Phoenix
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Student Regents: **David Martinez III**, UA **Ross Meyer**, ASU
Executive Director: **Joel Sideman**

**ARIZONA UNIVERSITY SYSTEM
TUITION AND FEES IN SUPPORT OF THE
2008-09 STATE OPERATING BUDGET**

	STATE COLLECTIONS		
	AS REPORTED IN THE 2008-09 INITIAL ALL FUNDS OPERATING BUDGET REPORT	2008-09 APPROPRIATIONS REPORT	CHANGE
Arizona State University Tempe	260,679,000	236,073,700	24,605,300
Arizona State University Polytechnic	27,120,200	25,151,200	1,969,000
Arizona State University West	27,573,200	25,092,500	2,480,700
TOTAL ASU	315,372,400	286,317,400	29,055,000
Northern Arizona University	52,620,500	51,739,600	880,900
University of Arizona	153,532,100	129,244,900	24,287,200
University of Arizona Health Sciences Center	16,543,500	14,063,000	2,480,500
TOTAL UA	170,075,600	143,307,900	26,767,700
TOTAL	538,068,500	481,364,900	56,703,600

ARIZONA STATE UNIVERSITY
FY09 PLANNED USES OF ESTIMATED STATE COLLECTIONS AND LOCALLY RETAINED TUITION AND FEE REVENUES
INITIAL ALL FUNDS BUDGET vs. APPROPRIATIONS REPORT

	STATE COLLECTIONS	LOCAL COLLECTIONS
As Reported in the Initial All Funds Report	315,372,400	190,934,100
As Reported in the FY09 Appropriations Report	286,317,400	
Amount Reportable	29,055,000	190,934,100

ALLOCATIONS BY PROGRAM

Instruction		
Faculty Salary Progression and Promotion	1,063,200	
Faculty and Staff Salary Compression and Retention	1,000,000	
Enrollment Growth Allocations and Investments	8,306,300	
College/School Support from Special Program Fees	1,960,300	
Faculty and Staff Hiring to Improve Student Retention	1,965,000	
Local Account Operating Support		9,940,400
Organized Research		
Public Service		
Academic Support		
Advising Services	62,700	
Student Retention Tracking System Enhancements	143,700	
University Technology Enhancements	1,286,400	
Local Operating Budget Support		683,500
Student Services		
Marketing and Communication Student Support	944,900	
Transfer Student Admissions Support	557,200	
Local Account Operating Support		3,405,700
Institutional Support		
Base Utilities Rate/Usage Increases	1,921,800	
Unfunded ERE Rate and Premium Increases	3,114,500	
New Downtown Phoenix Campus Facilities O&M	1,494,800	
Operations and Maintenance of New Poly Facilities	1,338,100	
Univ Technology Office Support from Incremental Fee	3,188,100	
Investment in Environmental Health and Safety	493,000	
Investment in Public Safety	215,000	
Local Account Operating Support		513,800
Scholarships/Fellowships/Financial Aid		
ABOR Financial Aid Set Aside		42,694,300
ABOR Top 15% High School Graduates		8,873,800
All Other Financial Aid		72,207,300
Auxiliary Enterprises		
Auxiliary Operating Support		2,516,300
Debt Service		
Debt Service Payments		37,141,300
Plant Funds		
Minor Capital Project Set Aside		12,957,700
	29,055,000	190,934,100

NORTHERN ARIZONA UNIVERSITY
FY09 PLANNED USES OF ESTIMATED STATE COLLECTIONS AND LOCALLY RETAINED TUITION AND FEE REVENUES
INITIAL ALL FUNDS BUDGET vs. APPROPRIATIONS REPORT

	STATE COLLECTIONS	TOTAL LOCAL RETAINED COLLECTIONS
As Reported in the FY09 Initial All Funds Report	52,620,500	55,078,100
As Reported in the FY09 Appropriations Report	51,739,600	
Amount Reportable	880,900	55,078,100
ALLOCATION BY PROGRAM		
Instruction		
State Appropriation Offset: Employee Related Expenses	880,900	
Local Account Operating Support		2,885,800
Organized Research		
Research Development		-
Public Service		
Public Service Support		10,900
Academic Support		
Academic Support		-
Student Services		
Student Services Support		603,100
Institutional Support		
Institutional Support		1,450,500
Scholarships/Fellowships/Financial Aid		
ABOR Financial Aid Set Aside		10,300,000
Set-Aside for Acad Meritorious AZ Residents		15,000
All Other Financial Aid		20,396,800
Auxiliary Enterprises		
Student Auxiliary Operating Support		2,262,100
Debt Service		
Debt Service Payments		15,775,700
Plant Funds		
Capital Project Support		1,378,200
	880,900	55,078,100

UNIVERSITY OF ARIZONA
FY09 PLANNED USES OF ESTIMATED STATE COLLECTIONS
INITIAL ALL FUNDS BUDGET vs. APPROPRIATIONS REPORT

	STATE COLLECTIONS	LOCAL COLLECTIONS
As Reported in the Initial All Funds Report	170,075,600	145,342,400
As Reported in the FY09 Appropriations Report	143,307,900	
Amount Reportable	26,767,700	145,342,400

ALLOCATION BY PROGRAM

Instruction		
Additional Outreach Programs	4,421,500	
Hiring, Retention and Faculty Commitments	3,900,000	
General Education Support	3,935,000	
Support to Colleges from Differential Tuition Revenue	1,154,300	
22:1 Enrollment Growth Adjustments Offset from State	609,500	
College of Medicine Phoenix Marginal Tuition	700,300	
College of Medicine Tucson Marginal Tuition	338,100	
Law College Faculty Commitment	210,000	
Honors College Instructional Support	201,000	
Local Account Operating Support		2,165,700
Organized Research		
Telescope Directorate	650,000	
Public Service		
n/a		
Academic Support		
Campus Diversity Initiative & Advising	1,307,000	
Local Account Operating Support		524,500
Student Services		
Local Account Operating Support		8,716,100
Institutional Support		
Shortfall in State Funding for Health Benefit Rate Increases	2,300,000	
Shortfall in State Funding for Utility Rate Increases	2,200,000	
Shortfall in State Funding for Operation and Maintenance	1,800,000	
Vice President Health Affairs	1,000,000	
Enterprise System Replacement Project	1,000,000	
Banking Services	700,000	
Office of External Relations	315,000	
Emergency Texting	26,000	
Local Account Operating Support		3,876,000
Scholarships/Fellowships/Financial Aid		
ABOR Financial Aid Set Aside		17,941,500
Student Aid Awards (formerly waivers)		72,460,400
Graduate Assistant Tuition Remission		6,392,600
All Other Financial Aid		6,069,300
Auxiliary Enterprises		
Auxiliary Operating Support		0
Debt Service		
Debt Service Payments		25,072,400
Plant Funds		
Minor Capital Project Set Aside		2,123,900
	26,767,700	145,342,400

2008-09
LOCALLY RETAINED COLLECTIONS

ARIZONA STATE UNIVERSITY - TEMPE CAMPUS

		FINAL 2007-08	INCREASE/ (DECREASE)	INITIAL BUDGET 2008-09
D E S I G N A T E D		0		
	American English and Cultural Program - ITA	105,500		105,500
	Associated Students - ASASU	1,035,600		1,035,600
	Child & Family Services	75,600		75,600
	Constituent Advocacy	150,000		150,000
	Distance Learning Technology	372,500	311,000	683,500
	Federal Direct Loan Administration	173,600		173,600
	Fine Arts Activities	307,900		307,900
	Fine Arts Theatres	605,900		605,900
	Forensics	106,100		106,100
	Graduate Support Program	0	55,000	55,000
	Interpreters Theatre	35,700		35,700
	KASR Radio	22,000		22,000
	Mona Plummer Aquatic Center	141,900		141,900
	Special Events	176,800		176,800
	Student Affairs Initiatives	275,800		275,800
	Student Financial Assistance Administration	423,000		423,000
	Summer Bridge Program	0	335,200	335,200
	Teaching Assistant Tuition Benefit	7,270,200	654,200	7,924,400
	University Minority Culture Program	126,200		126,200
	Employee Benefit Adjustments/Contingencies	200,000		200,000
A U X I L I A R Y	Subtotal Designated	11,604,300	1,355,400	12,959,700
	ASU Public Events	0		0
	Intercollegiate Athletics	560,000		560,000
	Memorial Union	1,129,200		1,129,200
	Recreational Sports	827,100		827,100
	Student Media	0		0
	Subtotal Auxiliary	2,516,300	0	2,516,300
	Total Operating Funds	14,120,600	1,355,400	15,476,000
F I N A I D	Regents Financial Aid Set-Aside	28,134,900	4,799,500	32,934,400
	Other Financial Aid - Top 15% AZ HS Grad	8,134,200		8,134,200
	Other F.A. - Institutional FA (formerly tuition waivers)	57,245,300	(1,277,700)	55,967,600
	Other Financial Aid - CRESMET/CONACY/NEEP	371,400		371,400
	Other F.A. - Graduate Scholars Program	600,000		600,000
	Graduate Fellowship Program	1,800,000		1,800,000
	Student Technology Fee FA Set-Aside	501,500	562,600	1,064,100
	Other F.A. - School of Engineering Program	60,000		60,000
	College of Design FA Set-Aside	45,400	152,900	198,300
	College of Business FA Set-Aside	383,700	(7,900)	375,800
	Walter Cronkite School of Journalism FA Set-Aside	0	9,500	9,500
	School of Engineering FA Set-Aside	239,700	44,500	284,200
	College of Law FA Set-Aside	663,700	32,500	696,200
	College of Liberal Arts FA Set-Aside	40,400	46,700	87,100
	College of Nursing FA Set-Aside	30,500	86,300	116,800
	Subtotal Financial Aid	98,250,700	4,448,900	102,699,600
	Plant Fund - Minor Capital Projects/Start-Up Funds	10,857,700	2,000,000	12,857,700
	Debt Service	30,235,500	2,021,400	32,256,900
TOTAL LOCAL RETENTION		152,426,000	9,825,700	163,290,200

2008-09
LOCALLY RETAINED COLLECTIONS

ARIZONA STATE UNIVERSITY - POLYTECHNIC CAMPUS

		MID YEAR UPDATE 2007-08	INCREASE/ (DECREASE)	INITIAL BUDGET 2008-09
D E S I G N A T E D	Career Services	48,900		48,900
	Dining Services Management	38,000		38,000
	Inter-campus Shuttle Services	36,000		36,000
	Learning Communities	6,500		6,500
	Student Counseling	5,000		5,000
	Student Health Services	225,000		225,000
	Student Organizations	21,000		21,000
	Student Orientation and Forums	10,600		10,600
	Student Recreation/Intramurals	301,500		301,500
	Student Union/Activities	558,700		558,700
	Teaching Assistant Tuition Benefit	131,700	11,800	143,500
		0		
	Subtotal Designated	1,382,900	11,800	1,394,700
A U X I L I A R Y				
	Subtotal Auxiliary	0	0	0
	Total Operating Funds	1,382,900	11,800	1,394,700
F I N A I D	Regents Financial Aid Set-Aside	2,652,100	1,450,800	4,102,900
	Morrison School of Mgt & Agribusiness FA Set-Aside	34,600	(34,600)	0
	Other Financial Aid - Top 15% AZ HS Grad	196,200		196,200
	Other F.A.- Institutional FA (formerly tuition waivers)	1,560,200	512,200	2,072,400
	Subtotal Financial Aid	4,443,100	1,928,400	6,371,500
	Plant Fund			
	Debt Service			
	TOTAL LOCAL RETENTION	5,826,000	1,940,200	7,766,200

2008-09
LOCALLY RETAINED COLLECTIONS

ARIZONA STATE UNIVERSITY - WEST CAMPUS

		MID YEAR UPDATE 2007-08	INCREASE/ (DECREASE)	INITIAL BUDGET 2008-09
D E S I G N A T E D	Academic Affairs	5,200		5,200
	Alumni Association - Devil's West	0		0
	Arts & Sciences Support	0		0
	ASU West Commencement	15,000		15,000
	ASUW Film Series	0		0
	ASUW Fine Arts Program	60,000		60,000
	Campus Environment Team	4,800		4,800
	Child Development & Visual Perception Lab	16,000		16,000
	Honors College	3,000		3,000
	Life Science Instructional Support	0		0
	Special Events	20,000		20,000
	Student Government	65,000		65,000
	Subtotal Designated	189,000	0	189,000
A U X I L I A R Y				
	Subtotal Auxiliary	0	0	0
	Total Operating Funds	189,000	0	189,000
F I N A I D	Regents Financial Aid Set-Aside	4,314,600	1,342,400	5,657,000
	Other Financial Aid-Top 15% AZ HS Grad	543,400		543,400
	Other F.A.- Institutional FA (formerly tuition waivers)	3,433,200	765,500	4,198,700
	Other FA - Teach for America	0	4,300,000	4,300,000
	School of Global Mgt & Leadership FA Set-Aside	116,800	(111,600)	5,200
	College of Teacher Education & Leadership FA Set-Aside	22,500	(22,500)	0
		0		
	Subtotal Financial Aid	8,430,500	6,273,800	14,704,300
	Plant Fund	100,000		100,000
	Lease Purchase	4,884,400		4,884,400
	TOTAL LOCAL RETENTION	13,603,900	6,273,800	19,877,700

2008-09
LOCALLY RETAINED COLLECTIONS

NORTHERN ARIZONA UNIVERSITY

		FINAL 2006-07	INCREASE/ (DECREASE)	INITIAL BUDGET 2008-09
D E S I G N A T E D	ADA Services	180,000		180,000
	Art Gallery	10,900		10,900
	Child Care	43,900		43,900
	Creative Arts	58,900		58,900
	Employee Benefit Adjustments/Contingencies	100,000		100,000
	Financial Aid Office Operations	337,300		337,300
	Graduate Assistant Tuition Remission	672,400	375,000	1,047,400
	Graduate Operations Support	8,000	(8,000)	0
	Honors Forum	11,200		11,200
	International Studies	260,000		260,000
	Mountain Campus ID	13,200		13,200
	NAU-Yuma	19,900		19,900
	Operations - Credit Card Fees	600,800	300,000	900,800
	Performing Arts Series	39,900		39,900
	Registrar Office	112,400		112,400
	School of Comm Student Radio, Cable & Forensics	30,200		30,200
	Special Events	28,300		28,300
	Stateside Expansion	0	1,000,000	1,000,000
	Student Activities	289,500	(4,400)	285,100
	SUN (Student Union Network)	65,800		65,800
	Tuition Differential/Program Fee - GIS	0		0
	Tuition Differential/Program Fee - MAdm	267,800	20,000	287,800
	Tuition Differential/Program Fee - MBA	29,800	13,000	42,800
	Tuition Differential/Program Fee - MEng	35,700	(16,000)	19,700
	Tuition Differential/Program Fee - MSM	3,000	(3,000)	0
	Tuition Differential/Program Fee - Doctor of Physical Therapy (DPT)	68,000		68,000
A U X I L I A R Y	Subtotal Designated	3,286,900	1,676,600	4,963,500
	Associated Students (ASNAU)	188,300		188,300
	Intercollegiate Athletics *	1,735,000	54,000	1,789,000
	Intramurals/Recreation	63,700		63,700
	Skydome	207,900		207,900
	* Change of fund source, not change in funding level			
	Subtotal Auxiliary	2,194,900	54,000	2,248,900
	Total Operating Funds	5,481,800	1,730,600	7,212,400
F I N A I D	Regents Financial Aid Set-Aside	8,500,500	1,799,500	10,300,000
	Set-Aside for Academically Meritorious AZ Residents	40,000	(25,000)	15,000
	DPT- FA Set-Aside	11,900		11,900
	MAdm - FA Set-Aside	47,300	3,500	50,800
	MBA - FA Set-Aside	5,300	2,200	7,500
	MEng - FA Set-Aside	6,300	(2,800)	3,500
	MSM - FA Set-Aside	500	(500)	0
	Student Financial Aid Match (SSIG, SEOG, etc.)	318,400		318,400
	Other Financial Aid - (formerly tuition waivers)	20,004,700		20,004,700
	Subtotal Financial Aid	28,934,900	1,776,900	30,711,800
	Plant Fund	1,378,200	0	1,378,200
	Debt Service	14,775,700	1,000,000	15,775,700
	TOTAL LOCAL RETENTION	50,570,600	4,507,500	55,078,100

2008-09
LOCALLY RETAINED COLLECTIONS

UNIVERSITY OF ARIZONA

		MID YEAR UPDATE 2007-08	INCREASE/ (DECREASE)	INITIAL BUDGET 2008-09
		0		
	College of Nursing - Accelerated BSN	448,700	229,800	678,500
	Eller Evening MBA	404,000	87,000	491,000
	Multicultural Affairs and Student Success (M.A.S.S.)			
	Admissions Recruiting	352,600	18,600	371,200
	African American Student Affairs	21,200	400	21,600
	Asian Pacific American Student Affairs	16,500		16,500
	Early Outreach	19,800	100	19,900
	Hispanic Student Affairs	8,600		8,600
	Minority Student Recruitment	177,700	3,200	180,900
	Minority Summer Institute for Writing	13,100	100	13,200
	Multicultural Programs	137,500	800	138,300
	Native American Student Affairs	11,400	100	11,500
	Fall Transition/University Learning Center	14,000		14,000
	FM Student Recreation O&M	251,300	1,500	252,800
	Graduate Teaching Assistants - Tuition Remission	6,388,300	4,300	6,392,600
	Graduate College	174,400	5,400	179,800
	Graduate and Professional Student Council	63,000	200	63,200
	Interpreting/Disabilities (ADA)	152,300	11,900	164,200
	Law College Special Fee	1,100,900	(175,900)	925,000
	Learning Disabilities Mandated Services	364,100	(44,100)	320,000
	Library Acquisitions	461,200		461,200
	Merchant Credit Card Banking Fees	2,233,200	(500,000)	1,733,200
	Special Education Fee Waiver	564,500		564,500
	Student Child Care Voucher Program	87,500		87,500
	Student Travel Support	60,100	(1,800)	58,300
	Student Services	48,300	36,000	84,300
	Utility Costs Reserve	4,398,300	(3,264,800)	1,133,500
	Subtotal Designated	17,972,500	(3,587,200)	14,385,300
	Associated Students (ASUA)	330,900	(10,800)	320,100
	Campus Health Service	4,222,700	72,900	4,295,600
	Campus Recreation and Intramurals	568,100	2,000	570,100
	Student Faculty Relations	6,700		6,700
	Student-Related Activities	47,500	(4,100)	43,400
	Student Programs	685,500	(302,400)	383,100
	Student Union	1,267,600	23,000	1,290,600
	Subtotal Auxiliary	7,129,000	(219,400)	6,909,600
	Total Operating Funds	25,101,500	(3,806,600)	21,294,900
	Regents Financial Aid Set-Aside	14,901,100	2,758,600	17,659,700
	UAS (SV) - Regents FA Set-Aside	261,500	20,300	281,800
	Supplemental Need-Based Set-Aside	1,083,000	(1,083,000)	0
	Other Financial Aid - (formerly tuition waivers)	62,343,000	10,117,400	72,460,400
	Architecture (Grad) FA Set-Aside	3,400		3,400
	Architecture (UG) FA Set-Aside	10,000		10,000
	Eller MBA FA Set-Aside	299,900	60,000	359,900
	Eller (UG) FA Set-Aside	142,600	52,500	195,100
	Engineering (UG) FA Set-Aside	81,000	(11,300)	69,700
	Graduate Scholarships	380,000		380,000
	Journalism FA Set-Aside		8,600	8,600
	Law School FA Set-Aside	581,800	82,100	663,900
	COM FA Set-Aside	255,500	59,700	315,200
	COM - Phoenix - FA Set-Aside	58,000	123,600	181,600
	Optical Science FA Set-Aside		10,200	10,200
	Pharmacy FA Set-Aside	343,300	86,200	429,500
	Planning FA Set-Aside	9,200	600	9,800
	Public Health FA Set-Aside	17,500	(5,400)	12,100
	Undergraduate Scholars	3,619,300		3,619,300
	Nursing Special Fee FA	53,400	6,600	60,000
	SIRLS Special Fee FA	107,400	13,600	121,000
	Subtotal Financial Aid	84,550,900	12,300,300	96,851,200
	Plant Fund	0	0	0
	Utility Infrastructure	2,123,900		2,123,900
	Subtotal Plant Funds	2,123,900	0	2,123,900
	Debt Service	24,072,400	1,000,000	25,072,400
	TOTAL LOCAL RETENTION	135,848,700	9,493,700	145,342,400

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

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CHAIRMAN 2008
PAULA ABOUD
AMANDA AGUIRRE
JORGE LUIS GARCIA
JACK W. HARPER
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DATE: September 25, 2008

TO: Senator Bob Burns, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Leatta McLaughlin, Principal Fiscal Analyst

SUBJECT: JLBC Staff – Index for School Facilities Board Construction Costs -- Agency Request
(Information Only)

Request

A.R.S. § 15-2041D.3.c requires that the cost-per-square-foot factors used in the School Facilities Board (SFB) building renewal and new school construction financing “shall be adjusted annually for construction market considerations based on an index identified or developed by the Joint Legislative Budget Committee (JLBC) as necessary but not less than once each year.”

The SFB Staff is requesting that the Committee approve an adjustment for FY 2009 based on an average of 2 Phoenix Metropolitan marketplace indices developed by a project management firm and a construction-consulting group.

Recommendation

The Chairman has scheduled this item for information only and does not plan to take a vote at this meeting. The Chairman is seeking further information on the Governor’s plans to resolve the FY 2009 budget shortfall and whether the funding associated with this particular agenda item could be part of the solution.

At the time the vote is taken, the Committee has at least the following 4 options (options 2 and 4 exclude the implementation of Full-Day Kindergarten as it is only becoming effective with the FY 2009 budget):

1. Approve a 5.14% increase in the cost-per-square-foot factors as requested by SFB Staff. Approving this adjustment may generate \$392,200 in FY 2009 new construction costs and \$17.0 million in additional costs through FY 2013. The SFB requested percentage is based on Phoenix-area construction costs in the last year. The adjustment would increase the building renewal formula cost by \$11.1 million in FY 2010. Formula increases, however, do not occur automatically and are subject to legislative appropriation.
2. Approve a 5.14% increase in the cost-per-square-foot factors *excluding* the implementation of Full-Day Kindergarten (FDK) capital costs. Approving this adjustment may generate \$9.1 million in additional costs from FY 2010 through FY 2013. This option would not generate additional FY 2009 costs since FDK capital costs would not be implemented. The adjustment would increase the building renewal

(Continued)

formula cost by \$11.1 million in FY 2010. Formula increases, however, do not occur automatically and are subject to legislative appropriation.

3. Approve a 1.98% increase in the cost-per-square-foot factors, which is based on general inflation as measured by the Gross Domestic Product implicit price deflator (GDP deflator) in the last year. Approving this adjustment may generate \$151,100 in FY 2009 new construction costs and \$6.5 million in additional costs through FY 2013. The adjustment would increase the building renewal formula cost by \$4.3 million in FY 2010. Formula increases, however, do not occur automatically and are subject to legislative appropriation.
4. Approve a 1.98% increase in the cost-per-square-foot factors *excluding* the implementation of FDK capital costs. Approving this adjustment may generate an additional \$3.5 million in additional costs from FY 2010 through FY 2013. This option would not generate additional FY 2009 since FDK capital costs would not be implemented. The adjustment would increase the building renewal formula cost by \$4.3 million in FY 2010. Formula increases, however, do not occur automatically and are subject to legislative appropriation.

Table 1 lists the current dollar per square foot amounts and Options 1 through 4, while Table 2 summarizes the potential additional cost associated with each option.

Table 1 Dollars per Square Foot Amounts for Each Option			
	<u>K-6</u>	<u>7-8</u>	<u>9-12</u>
Current Amount	\$134.01	\$141.47	\$163.81
Options 1 & 2 - Construction index (5.14%)	\$140.90	\$148.74	\$172.23
Options 3 & 4 - GDP deflator (1.98%)	\$136.66	\$144.27	\$167.05

Table 2 FY 2009 Options - Potential Costs (\$ in Millions)			
	<u>FY 2009 New Construction Cost</u>	<u>FY 2010 – FY 2013 New Construction Cost</u>	<u>FY 2010 Building Renewal Cost</u>
Option 1 – 5.14%	\$0.4	\$16.6	\$11.1
Option 2 – 5.14%, no FDK	\$0.0	\$9.1	\$11.1
Option 3 – 1.98%	\$0.2	\$6.3	\$4.3
Option 4 – 1.98%, no FDK	\$0.0	\$3.5	\$4.3

SFB has the statutory authority to fund projects above these square foot amounts if a district cannot build a school within the New School Facilities (NSF) formula amount. In FY 2007, SFB funded 86% of their projects over the funding amount for a total of \$33.4 million. In FY 2008, SFB funded 90% of their projects over the formula amount for a total of \$31.1 million. Over the past 2 years, SFB has given additional inflationary funding of about \$1.5 million to each of these projects.

New Construction Moratorium

A moratorium on new construction projects was authorized for FY 2009 by the FY 2009 Education Budget Reconciliation Bill (Laws 2008, Chapter 287). The bill prohibits SFB from authorizing or awarding funding for the design or construction of any new school facility, except for Full-Day Kindergarten (FDK) or for school site acquisition in FY 2009. The moratorium was enacted due to declines in the state's housing market and the state's population growth rate. The moratorium also requires SFB to provide monies for architectural and engineering fees, project management services, and preconstruction services if a school district qualifies for additional space in FY 2009 due to the implementation of FDK. It also requires school districts to submit capital plans during FY 2009 and permits SFB to review and award new school projects subject to future appropriations. During the FY 2009 approval cycle, SFB expects to approve \$152.6 million worth of FDK space and \$177.3 million worth of non-FDK new construction projects for a total of \$329.9 million in approvals.

(Continued)

Analysis

This section includes background information regarding the SFB inflation index, details on rising construction costs, an explanation of the options available for the current adjustment, and discussion on SFB's guidelines for funding new school construction projects.

Background Information

The original Students FIRST legislation (Laws 1998, Chapter 1, 5th Special Session) established funding amounts per square foot of space for new construction and building renewal (e.g., \$90 per square foot for Grades K-6). It required, however, that those amounts be adjusted periodically for inflation. The latter provision states that the funding amount per square foot "shall be adjusted annually for construction market considerations based on an index identified or developed by the JLBC as necessary but not less than once each year" (A.R.S. § 15-2041D.3c). SFB also has statutory authority to modify a particular project cost per square foot for geographic factors or site conditions above the approved amounts.

Prior to 2002, the Committee used the Marshall Valuation Service (MVS) construction cost index for Class C structures (masonry bearing walls) for Phoenix. At the August 2002 meeting, the Committee elected not to approve an adjustment in the cost-per-square-foot factors. Due to the decision not to approve an adjustment for that year, 5 school districts brought suit against the Committee, claiming the Committee had failed to perform its statutory duty under A.R.S. § 15-2041D.3c to adjust the index not less than once per year. The following year, at the September 2003 meeting, the Committee approved a 2-year adjustment. The adjustment made was based on the Bureau of Economic Analysis (BEA) index for "State and Local Government Investment - Structures." The Committee again approved the BEA index at the September 2004 meeting. At the October 2005 meeting, the Committee approved an adjustment based on a midpoint between the BEA and MVS indices, which was higher than actual prior year inflation under either index, to account for the high rate of growth in construction costs over the past few years. Two years ago at its October meeting, the Committee adopted an average of the same 2 indices that the SFB Staff is recommending this year (see below). Last year at its October meeting, the Committee adopted the PinnacleOne index, which is 1 of the 2 indices the SFB Staff has requested the Committee adopt this year.

For building renewal, the inflation adjustment is applied to the *formula* amount. In FY 2009 the state did not fund the building renewal formula amount and instead funded \$20 million for the new Building Renewal Grants Fund. An inflationary adjustment, therefore, would increase the building renewal full formula amount to at least \$220.2 million (based on the GDP deflator), or to \$227.0 million (based on the SFB Staff request), in FY 2010 prior to any other possible formula adjustments. Adjusting for inflation would not change the existing FY 2009 Building Renewal Grants Fund appropriation since this fund is based on grant and not formula funding.

Construction Costs

The price of construction cost inputs rose more in FY 2008 than previously expected even though the increase was not as great as it was a few years ago. For example, the price of natural gas doubled over the past year, which increases the costs of outputs, such as PVC pipe, insulation, and flooring. The slowdown in the state's construction activity, however, could serve to reduce these cost pressures. According to the U.S. Department of Labor's Bureau of Labor Statistics, there was a loss of 10% in state construction jobs in FY 2008.

Options for the Current Adjustment

The JLBC Staff has identified possible adjustments that could be considered. *Attachment 1* includes information on each of the 3 indices discussed below.

PinnacleOne and Rider Indices

The SFB Staff has requested for the third year in a row the Committee approve an adjustment based on an average of 2 Phoenix market indices developed by PinnacleOne, a project management firm, and Rider Levett Bucknall, an international construction-consulting group.

The PinnacleOne index reports inflation of 4.68% for FY 2008 and is based on the cost of an elementary school in the Phoenix area. Beginning in January 2006, this index was only developed for Phoenix and is based on the cost to build a 70,000 square foot K-6 school. Input prices are updated each quarter based on

(Continued)

conversations with their subcontractors and suppliers. Even though it measures inflation for Phoenix area elementary schools, it does not measure inflation for high schools or schools outside of the Phoenix Metropolitan area.

The Rider index reports inflation of 5.59% and includes all types of Phoenix area construction. This index tracks the bid cost of construction including labor, materials, general contractor and subcontractor overhead costs and fees, and applicable sales and use taxes. Rider develops a construction costs index for 11 major U.S. cities, including Phoenix. This index also does not measure inflation outside of Phoenix.

The average of these 2 indices is 5.14%. The total estimated new construction impact would be \$17.0 million cumulatively through FY 2013. The adjustment would increase the building renewal formula cost by \$11.1 million in FY 2010. Formula increases, however, do not occur automatically and are subject to Legislative appropriation.

Gross Domestic Produce Price Deflator

The GDP deflator reports inflation of 1.98% in FY 2008 and is published by the U.S. Department of Commerce's Bureau of Economic Analysis. It measures the change in prices of all new, domestically produced, final goods and services in an economy. Unlike some price indexes, the GDP deflator is not based on a fixed basket of goods and services. The basket is allowed to change with people's consumption and investment patterns, therefore, new expenditure patterns are allowed to show up in the deflator as people respond to changing prices.

New School Construction Funding Guidelines

SFB provides new construction funding based on the product of the following statutory NSF formula:

$$\text{Number of pupils} \times \text{square foot per pupil} \times \text{cost per square foot} = \text{allocation amount}$$

SFB has the authority to provide additional funding above and beyond the statutory allocation amount to a district if it cannot build a school within the NSF formula amount. A district can prove they cannot build a minimum guidelines school by demonstrating they are building the least expensive school they possibly can but are still over the formula amount.

Since the enactment of Students FIRST, some of these projects have been funded above the formula with SFB monies. In FY 2007, SFB funded 86% of their projects over the funding amount for a total of \$33.4 million. In FY 2008, SFB funded 90% of their projects over the formula amount for a total of \$31.1 million. Over the past 2 years, SFB has given additional inflationary funding of about \$1.5 million to each of these projects.

SFB has applied the JLBC adopted inflationary adjustment to projects that are approved subsequent to the Committee's action. As a result, projects that are approved at different times but began construction at the same time might receive different funding amounts from SFB.

As advised by the Auditor General's office, SFB submitted a request to the Attorney General in November 2007 concerning their formal opinion on SFB's practice of awarding new construction projects additional monies over the statutory new construction formula amount. The Attorney General has not yet published an official opinion on this request.

RS/LMc:ss
Attachment

Construction Costs Indices Research

PinnacleOne

- Project management firm (<http://www.pinnacleone.com/>)
- 4.68% for FY 2008
- Phoenix elementary school index
- Has been in existence since 2005 internally but was finalized in January 2006. The first index they published was for 1st Quarter 2006.
- In January 2006 they used an actual 70,000 sq. ft. K-6 school as a model. They update their cost estimates every quarter by contacting outside contractors and vendors to ask them what kinds of costs they have experienced for the previous 3 months.

Rider Levett Bucknall

- International construction-consulting group (www.riderhunt.com)
- 5.59% for FY 2008
- All types of Phoenix construction-they use a hypothetical building in their model so it's not necessarily a residential or commercial building.
- Has been in existence internally since 2001 but was first published in 2002 and is published each quarter.
- Tracks bid costs of construction including labor, materials, general contractor and subcontractor overhead costs and fees, and applicable sales and use taxes. Once a quarter, they contact the same 3 suppliers to ask what material prices they've been incurring the previous 3 months and then average these 3 material costs. They use government websites to get information on labor costs.
- Has the same index for 11 other U.S. cities besides Phoenix.

Gross Domestic Product Implicit Price Deflator

- Published by the U.S. Department of Commerce's Bureau of Economic Analysis (www.bea.gov)
- 1.98% in FY 2008
- Measures the change in prices of all new, domestically produced, final goods and services in an economy.
- Not based on a fixed basket of goods and services so the basket is allowed to change with people's consumption and investment patterns.
- New expenditure patterns are allowed to show up in the deflator as people respond to changing prices.



Governor of Arizona
Janet Napolitano

STATE OF ARIZONA
SCHOOL FACILITIES BOARD

September 9, 2008

The Honorable Robert Burns
Chairman
Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007

Executive Director

William Bell



Dear Senator Burns,

A.R.S. 15-2041, section 3(C). states in part "...The cost per square foot shall be adjusted annually for construction considerations based on an index identified or developed by the joint legislative budget committee as necessary but no less than once each year."

For FY 2009, SFB staff is requesting the committee adjust the formula by 5.14 percent. This number was derived from two indexes (attached) developed specifically for the Phoenix market. The project management firm PinnacleOne developed the first index. This index is based on the cost of an elementary school in the Phoenix metropolitan market and reports FY 2008 inflation at 4.68 percent. The second index was developed by Rider Levett Bucknall an international construction-consulting group. This index includes all types of commercial construction and sets inflation at 5.59 percent. The recommended number of 5.14 percent is the average of these two indexes.

Table one shows the impact on the cost per square foot of the recommended increase.

Table One

Grade Level	Current Amount	Adjusted Amount
K-6	\$134.01	\$140.90
7-8	\$141.47	\$148.73
9-12	\$163.81	\$172.22

SFB staff believes that this amount adequately reflects FY 2008 inflation. As shown on Attachment II, excluding local impact fees, the proposed costs per square foot would have covered the construction costs for the most recent SFB new construction projects.

Fiscal Impacts

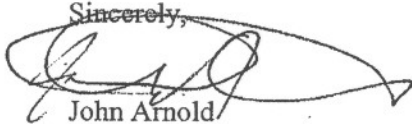
Because of the FY 2009 moratorium for new construction, the fiscal impact is limited to the full-day kindergarten program. SFB staff calculates the impact at \$385,000. Please note that anticipated inflation was included in the FY 2009 budget for full-day kindergarten awards.

The FY 2010 impact will include the construction starts of the full-day kindergarten awards and the design and constructions starts of projects awarded in FY 2009. SFB staff calculates this impact at \$3.2 million.

For building renewal, there is no FY 2009 impact. The estimated FY 2010 impact to the building renewal formula is \$11.1 million.

If you or your staff have any questions regarding this letter, please contact me.

Sincerely,

A handwritten signature in black ink, appearing to be 'John Arnold', written over a horizontal line.

John Arnold

Attachments//

CC

Richard Stavneak

James Apperson

Lauren Kielsmeier

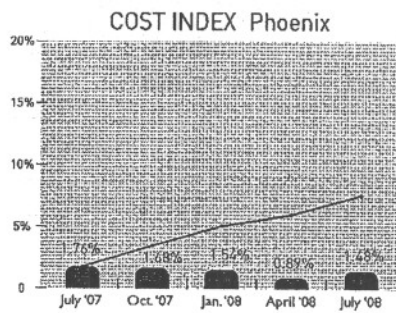
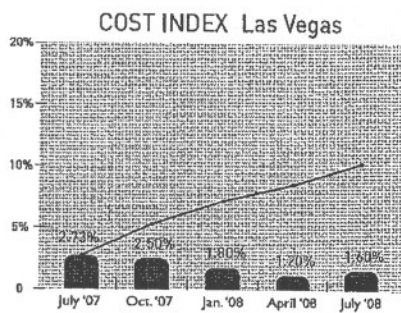
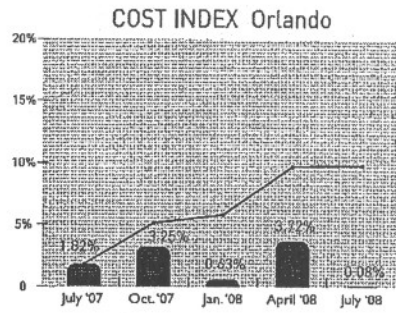
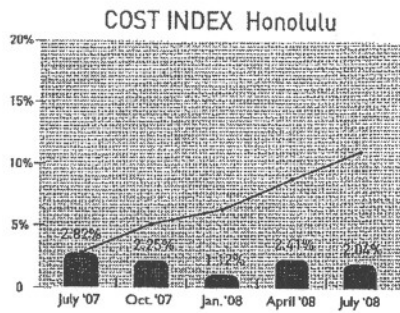
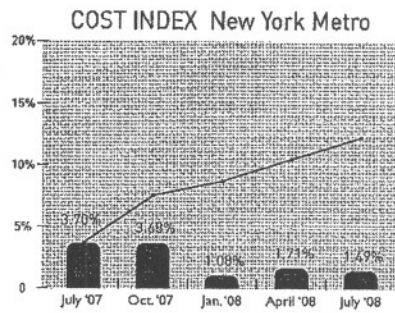
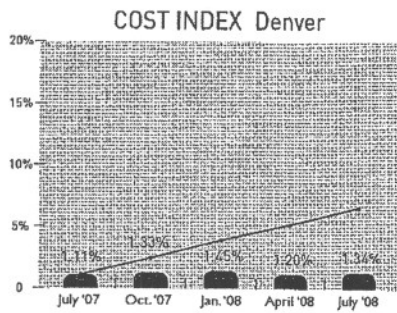
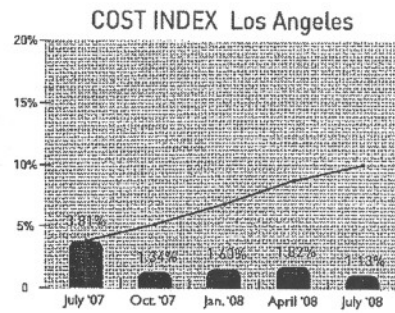
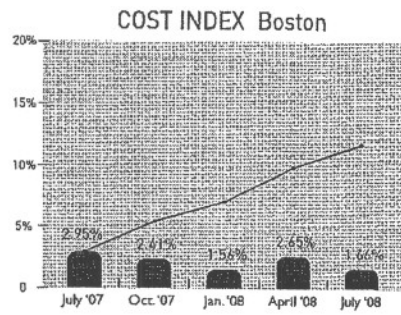


Phoenix Elementary School Building Cost (\$) /SF from FY 1998 through 2008

Fiscal Year (FY) July -June	1 Inflation Rate of Increase (PinnacleOne)	2 \$/SF of K through 6 in Greater Phoenix	3 ENR 20 city average Rate of Increase	4 \$/SF of K through 6 in 20 city average	5 Inflation Rate of Increase (Marshall Swift)	6 \$/SF of K through 6 in Greater Phoenix	7 Inflation Rate of Increase (JLBC Adopted)	8 \$/SF of K through 6 in Greater Phoenix	9 \$/SF of K through 6 by Rider Hunt in Greater Phoenix	10 % Rate of Increase
1998		\$90.00		\$90.00		\$90.00	0.00%	\$90.00	\$90.00	
1999	1.92%	\$91.73	1.92%	\$91.73	0.00%	\$90.00	3.10%	\$92.79		
2000	2.40%	\$93.93	2.40%	\$93.93	3.10%	\$92.79	5.00%	\$97.43		
2001	0.99%	\$94.86	0.99%	\$94.86	5.00%	\$97.43	0.60%	\$98.01		
2002	1.37%	\$96.16	1.37%	\$96.16	0.60%	\$98.01	0.00%	\$98.01		
2003	1.93%	\$98.01	1.96%	\$98.04	4.80%	\$102.72	4.20%	\$102.13	\$120.00	
2004	7.88%	\$105.74	7.85%	\$105.74	1.70%	\$104.46	1.40%	\$103.56	\$120.00	0%
2005	5.55%	\$111.60	5.55%	\$111.60	8.70%	\$113.55	12.85%	\$116.87	\$120.00	0%
2006	17.30%	\$130.91	3.90%	\$115.96	6.40%	\$120.82	12.20%	\$131.13	\$150.00	25%
2007	2.66%	\$134.39	2.68%	\$119.06	3.00%	\$124.45	2.20%	\$134.01	\$155.00	3%
2008	4.68%	\$140.68	3.70%	\$123.47	Not Provided	Not Provided			Not Provided	Not Provided

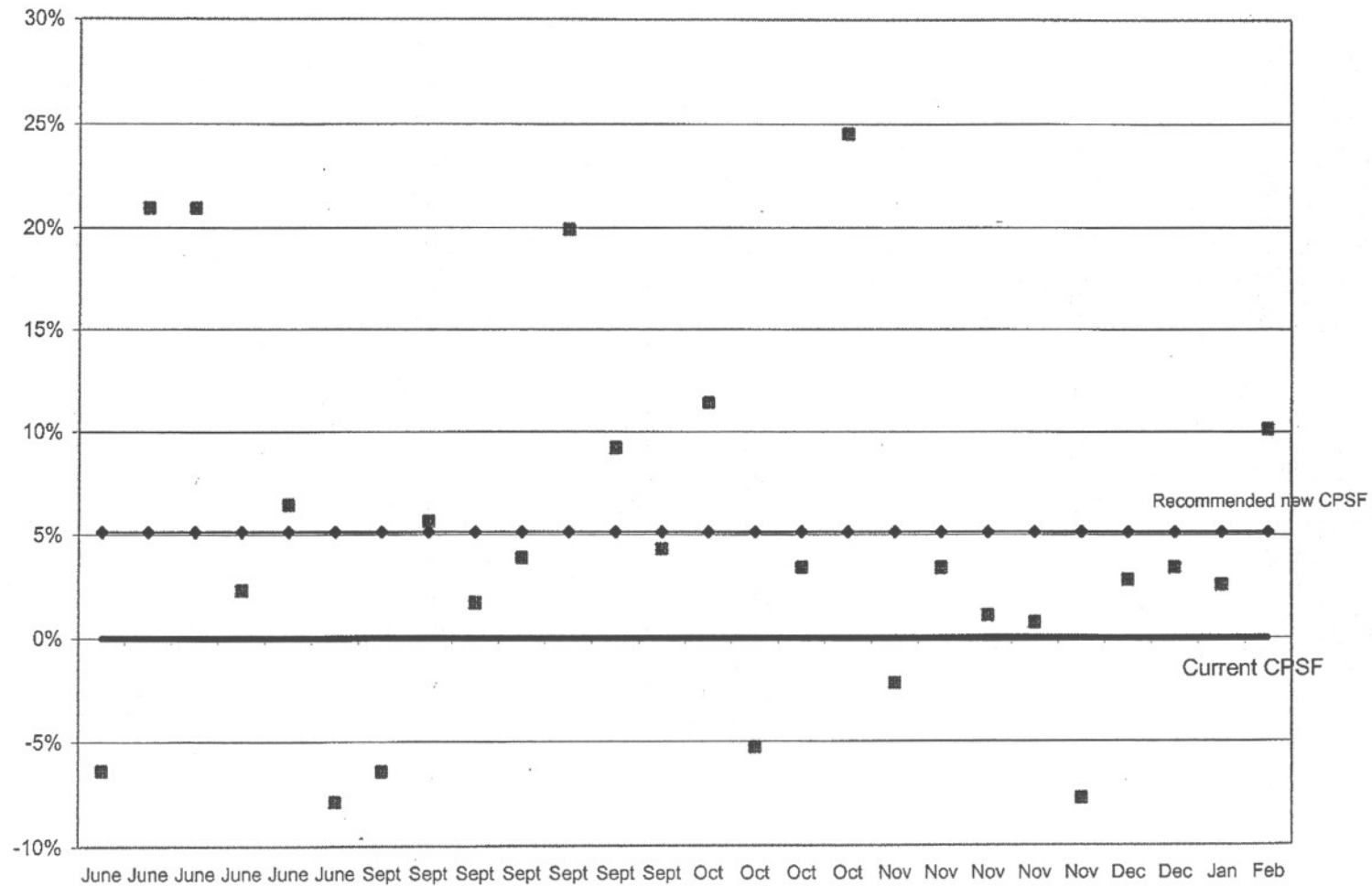
Notes:

- 1 Inflation rate per year derived from ENR and adjusted to Phoenix market.
For FY 2005 - 2006, the inflation rate was taken from Associated General Contractors for the Phoenix Market.
For FY 2007 - 2008, we used the ENR BCI index computation and applied local material prices, and prevailing wage rates.
- 2 The minimum base construction cost for FY1998 is \$90/sf and was used as a base for all indices shown.
- 3 Column 3 is the 20 City Average BCI Inflation Rate computed by ENR.
- 4 Marshall Swift Inflation Index is not available for FY 2008.
- 5 Columns 9 & 10, Rider Hunt Inflation Index and Minimum Cost/SF of Elementary School.



SFB FY 2008 New Construction Costs
Includes Adjacent Ways and Local Fees

Attachment #2



Note: The current cost per square foot was increased by 2.2 percent starting with the November projects.